



**TOGETHER**  
*for a sustainable future*

## OCCASION

This publication has been made available to the public on the occasion of the 50<sup>th</sup> anniversary of the United Nations Industrial Development Organisation.



**TOGETHER**  
*for a sustainable future*

## DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

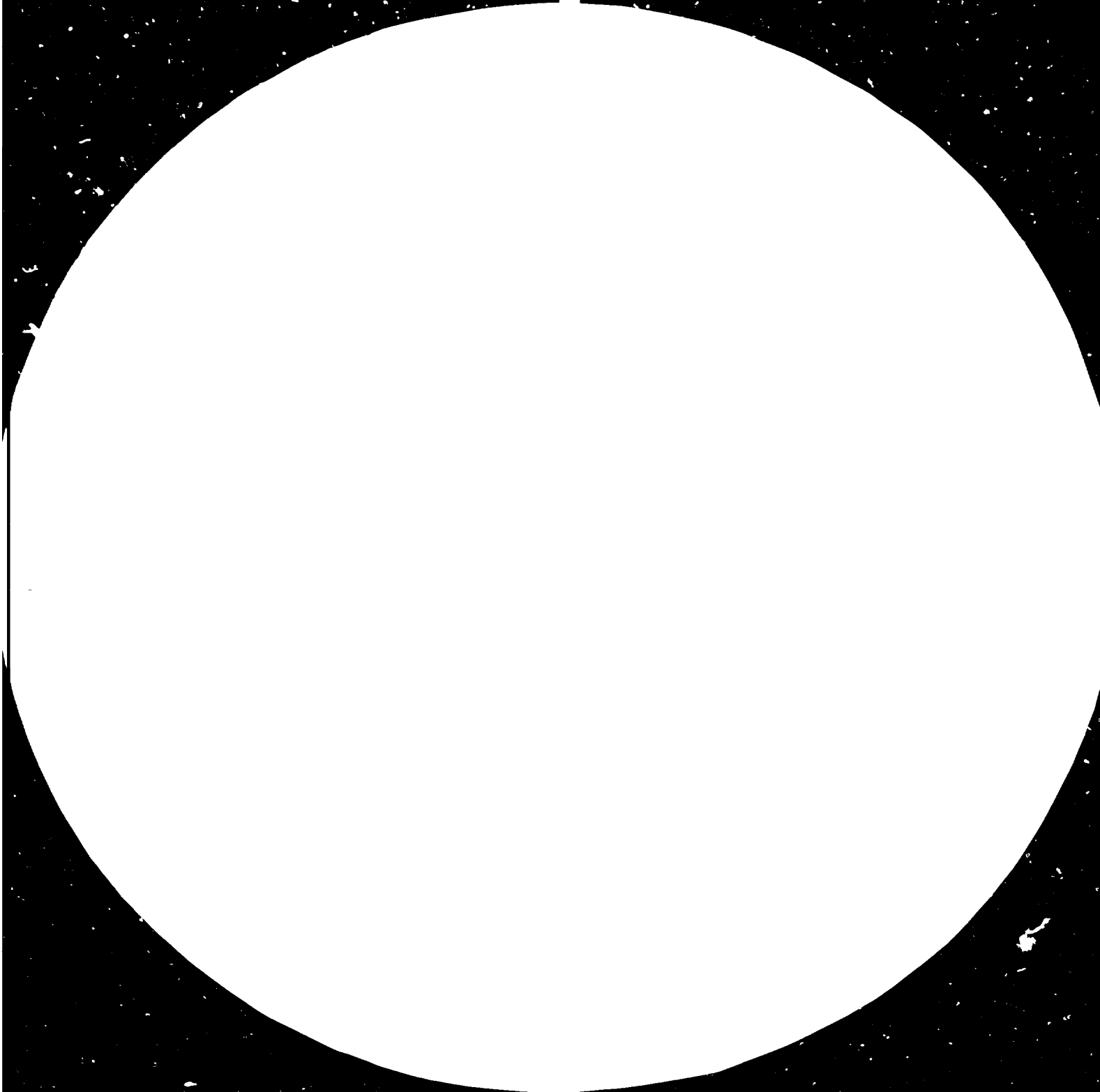
## FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

## CONTACT

Please contact [publications@unido.org](mailto:publications@unido.org) for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at [www.unido.org](http://www.unido.org)





12124

CONFERENCE ON THE ECONOMIC AND SOCIAL POTENTIAL  
OF INDUSTRIAL CO-OPERATIVES IN DEVELOPING COUNTRIES,  
ARUSHA (TANZANIA), 15-19 FEBRUARY 1982

COUNTRY PAPERS (on industrial co-operatives).

3739

CONFERENCE ON THE ECONOMIC AND SOCIAL POTENTIAL  
OF INDUSTRIAL CO-OPERATIVES IN DEVELOPING COUNTRIES,  
ARUSHA ( TANZANIA), 15-19 FEBRUARY 1982

COUNTRY PAPERS

TABLE OF CONTENTS

Introudction

- I. Industrial Co-operatives in Tanzania (pages 1 - 10)  
by P.N. Tarimo, Co-operative Department, Prime Minister's Office
- II. Industrial Co-operatives in Peru (pages 1 - 7)  
by B. Beatriz Arenas-Montellanos, Instituto Nacional de Cooperatives (INCOOP), Lima, Peru.
- III. Industrial Co-operatives in India (pages 1 - 10)  
by K. Shreedhar Rao, National Federation of Industrial Co-operatives.
- IV. Industrial Co-operatives in Ethiopia (pages 1 - 5)  
by Peter Abell
- V. Industrial Co-operatives in Kenya (pages 1 - 7)  
by Peter Abell
- VI. Industrial Co-operatives in Nigeria (pages 1 - 4)  
by Peter Abell
- VII. Proposals for the Development of Industrial Co-operatives in Botswana (pages 1 - 21)  
by Nicholas Mahoney
- VIII. Industrial Co-operatives and their Development Potential in Zambia (pages 1 - 25)  
  
by Nicholas Mahoney
- IX. Industrial Co-operation and its Future in Zimbabwe (pages 1 - 19)  
by Nicholas Mahoney

## I N T R O D U C T I O N

In view of the importance of industrial co-operatives and the significance of co-operation between developing and developed countries, as well as among developing countries themselves in the sharing of experience in the co-operative forms of industrial production by those who have already acquired this knowledge, UNIDO, in close co-operation with ICA, ICA Regional Office in Tanzania and the Tanzanian authorities, has decided to convene the Conference on the Economic and Social Potential of Industrial Co-operatives in Developing Countries. The Conference which will take place in Arusha, Tanzania, from 15 to 19 February 1982, is held for representatives from Tanzania and from other developing countries, namely Botswana, Ethiopia, India, Kenya, Nigeria, Peru, Zambia and Zimbabwe, who are concerned with industrial co-operative development.

The main objectives of this Conference are:

- to disseminate to the participating developing countries, the findings and recommendations of a 2½ year Research Study on the Economic and Social Potential of Industrial Co-operatives in Developing Countries, which was recently concluded by ICA with support from the United Nations and the British Overseas Development Authority. The Research took the form of case studies in India, Peru and Senegal, which set out the key factors which make for the successful operation of industrial co-operatives:
- to initiate a dialogue on the study by testing its findings against the experiences of the representatives of the participating countries:
- to enable the representatives from the participating developing countries to present a general picture of the co-operative movement and the conditions prevailing in their respective countries for the establishment and development of industrial co-operatives. Country papers have been prepared accordingly by the representatives of Peru and India, by a Tanzanian Senior Officer, and by the co-authors of the above-mentioned ICA Study, Professor P. Abell and Dr. N. Mahoney, who visited respectively, as UNIDO consultants, Ethiopia, Kenya, Nigeria, as well as Botswana, Zambia and Zimbabwe;
- to give the representatives from the participating developing country an opportunity for promoting industrial co-operative projects for their eventual undertaking through international co-operation. According to the above-mentioned country papers, project ideas have been identified in Botswana, Ethiopia, Kenya, Nigeria and Zambia.

It is hoped that the dialogue initiated during the Arusha Conference will lead to a greater co-operation between industrial co-operatives from industrialized and developing countries, and among the developing countries themselves, with the possible assistance of UNIDO, ICA and the co-operative organizations represented in Arusha.

INDUSTRIAL CO-OPERATIVES IN TANZANIA

P.N. TARIMO  
Co-operative Department  
Prime Minister's Office

CONTENTS

- 1-2. INTRODUCTION:
  - 2-3. CO-OPERATIVE MOVEMENT:
  - 3-4. INDUSTRIAL PRODUCER CO-OPERATIVE (IPS):
  - 5. ROLE OF THE GOVERNMENT IN ESTABLISHING AND PROMOTING INDUSTRIAL CO-OPERATIVES
  - 5-6. ROLE OF SMALL INDUSTRIES ORGANAZITION:
  - 6-8. PROBLEMS FACES BY INDUSTRIAL CO-OPERATIVES.
  - 8-9. ROLE OF FINANCIAL INSTITUTIONS
  - 9-10. FINANCIAL ASSISTANCE FROM INTERNATIONAL BODIES (UNIDO, ICA, COPAC ETC):
  - 10. CONCLUTION:
-



UNITED REPUBLIC OF TANZANIA

COUNTRY PAPER FOR CONFERENCE ON THE ECONOMIC  
AND SOCIAL POTENTIAL OF INDUSTRIAL CO-OPERATIVES

IN DEVELOPING COUNTRIES, ARUSHA,

15-19 FEBRUARY, 1982

1. INTRODUCTION:

1.1 Tanzania is a country Committed to pursuing the ideology of Socialism and self reliance. Land marks and concerted efforts to attain this end were charted out in the Arusha Declaration in 1967. It is from this year that the Government took control and guidance of all the commanding heights of the economy. In as far as the Industrial sector is concerned, it is very clear that large industries for exports are established and ran by national parastatal organization either singly or under management agreements with foreign collatorations. Industries of this magnitude are very few and by their nature the Country can only afford to establish ~~them~~ in each of prescribed six Industrial zones. So in the large Industrial sector, ownership is mostly public.

1.2 The second category of Industries is the medium scale sector in which ownership could be a Public corporation, a collaboration between a public corporation and an Individual entrepreneur, cooperative or partnership groups and individuals singly . The medium scale sector caters for regional and district demand. Such Industries can be established anywhere in the regions and districts.

1.3 The third category is the small scale sector in which individual entrepreneurs play a very substantial role. These can be found everywhere in towns and villages. They cater for demands surrounding them. They could be factory type of organizations or non-factory ones. They include modern small industries, arts and crafts.

1.4 In all these three categories of industries ownership determines the investment pattern. For example, the first category which is purely public. The Government invests through a public corporation or invites participation. The second category, once again the State invests through Public corporation like Regional or District Development Corporations or investment could be public in participation with private. Private Investment is quite substantial in the medium and small scale sectors. The small scale sector is dominated by individual entrepreneur although a shift is slowly becoming ocular. As a nation committed to building socialism, Tanzania does not budget funds for grants or subsidies to individual ventures. Public money is invested through parastatal organizations. However realising the tremendous gap between demand and supply and also the individual resources base, individual entrepreneur are encouraged to establish industries using their own resources and utilizing bank Commercial loans. In other words, potential and actual entrepreneurs are welcome and encouraged. Co-operative groups, partnerships have a very strong Government backing as they are instruments for furthering out national Policy.

2. CO-OPERATIVE MOVEMENT:

Tanzania has a long history in the field of Co-operative Movement. However the known forms of Cooperatives were mainly either marketing consumer or service oriented Co-operatives. The first marketing societies were registered before 1933. The major reasons for their formation was to enable peasants to market their produce which was previously being handled by unscrupulous middlemen. Having banned the middlemen in crop marketing the Government undertook to work out measures and guidelines aimed at strengthening the cooperative societies and instituting control measures for proper direction of cooperatives in general. These guidelines were later

formulated into legal provision hence the Cooperative societies act of 1968 which replaced the 1932 ordinance (Cap.211). The 1968 act mainly promotes single purpose societies. It is now being amended to match with recent developments in cooperatives

2.1 Thus by 1961 at the time of Independence there were 691 primary marketing societies and 38 unions and at the time of Ujamaa Declaration 1967 the number had risen to 1,311 primary societies and 33 unions. At the time of their dissolution in 1975 there were about 2,000 primary societies and 21 unions which by then were handling produce worth more than 800 million T. Shs.

### 3. INDUSTRIAL PRODUCER COOPERATIVE (IPS)

There is no record about the existence or registration of an industrial Co-operative before 1955 it is now that the Government is ~~thinking~~ very seriously of establishing producer Co-operative societies alongside and in line with other forms of Co-operative in Tanzania.

3.1 A recent survey conducted by small industries Development organization (SIDO) in collaboration with UNIDO shows the present situation of industrial Cooperative in Tanzania as follows:-

- That Tanzania has more industrial cooperative than any country in Africa. There are about 171 industrial Cooperative in all.
- That the number of people/worker Cooperative in these societies stands at 6,000 at present with a potential of increasing tremendously following the Governments' decision to reinstate cooperative unions. Considering the seasonal nature of peasant agriculture they are looked upon as viable alternative supplement of a

porment nature, to Agriculture. The Local human resource to be employed in such ventures would have been either idle or underemployed for a good period of the year.

- The Industrial cooperative mobilises financial resources that would have been used otherwise in forms of non productive business. Although there is still a generally low level of capital intensiveness and serious under-capitalization in most industrial cooperative, still the total current annual turnover of 140 active societies estimated at 52 million T. Shs. or potentially 110 mill T. Shs if all were working at full capacities.
- That by their nature industrial cooperative mobilise and utilise a lot of otherwise idle natural resources. The known kind of cooperative in this line are:- Tailoring carpentry, metal working, building and construction, mining and quarrying, soap and shoe making, bakery, tie and dye, handloom weaving and printing.

Other salient features of industrial cooperative in Tanzania are:-

- Those which were established by initiative of founder members are the majority ie 71% of all industrial cooperative and they stand a better chance of prospering and surviving, than those which were established by outsiders like local Government, Party Officials or affiliates, Ujamaa and Cooperative Department and SIDO.
- Industrial Cooperative started out of funds contributed by founder members do better and prosper than those which are given grants, or soft loans from inception.

4. ROLE OF THE GOVERNMENT IN ESTABLISHING AND PROMOTING INDUSTRIAL COOPERATIVES:

In principle cooperative societies are essentially member organizations run and managed by their members. However because of their significant role they have in the development of the nation, the government has reserved to itself certain powers with respect to cooperative affairs which are under the cooperative Development Department in the Prime Ministers Offices.  
These are:-

- Formulation of cooperative development policies.
- Registration, liquidation and cancellation of cooperative societies.
- Supervision of cooperative societies through approving their development estimates guaranteeing contracts entered into societies sanctioning, utilization of surplus.
- Inception of enquiries into cooperative affairs ect.

The departments' role is therefore to offer advice, guidance management and technical know how, and seek financial assistance to cooperative societies as well as to administer the cooperative law. It also promotes cooperative apex organization ie The union of cooperative societies in order to enable it to take over the cooperative education training inspection, printing and insurance consultancy services so much needed by movement.

5. ROLE OF SMALL INDUSTRIES ORGANIZATION:

The organization was established in Nov. 1973 by an act of parliament to promote and provide services to small industrial enterprises including industrial cooperative. It operates under the Ministry of Industries. SIDO is responsible for planning, coordinating, promoting and offering

technical assistance to small scale industries. Such assistance included:-

- Preparation of industrial guides on various small industries for the benefits of potential entrepreneurs and other promotion agencies.
- Offering direct or indirect technical know how in the use maintenance, installation, replacement of machines, design, source of raw materials, spares etc.
- establishment of industrial estates which provides built in factory sheds at reasonable rent as well infrastructure of roads, water electric connection and other common facilities. These estates are meant to become centres for both employees in them and outsiders.
- establishment of model projects in various fields eg open pan sugar processing, cement and oil extraction in order to demonstrate the efficiency of production process.
- Conduction training in various industrial fields including sheet metal work, woodwork, blacksmithy bamboo craft and handloom in its own working and training centres. On the job training is also offered
- Provision of marketing information and research.
- Supplying machines and equipment on hire purchase basis whenever possible.

6. PROBLEMS FACED BY INDUSTRIAL COOPERATIVE:

The present industrial cooperative societies are based on cooperative law which is essentially suited to service cooperative such as those of marketing as opposed to production activities for example there is an emphasis a substantial minimum number of members before registration of a cooperative takes place. In a production situation the more the better does not hold true

in every case. A machine cannot be operated by more persons than it was designed for. Fortunately this law is under review together with establishment of institutional framework for cooperative movement in Tanzania.

According to the survey on industrial cooperatives completed by UNIDO and SIDO basic problems affecting the smooth development of industrial cooperative are based on production, supplies, financial, marketing, and training.

Production: 40% of the 125 societies quoted this as a limiting factor. The problems are inadequate tools or machines, unserviceable or absolute machines and inadequate factory space.

Supplies: Raw materials shortage are still considered to be the major cause of limiting output and 61 of the 125 societies visited confirmed this. Although non-availability of raw materials is a national problem, many societies consider that when they do become available their distribution is unfair.

Insufficient funds to purchase raw materials when available is not only due to general shortage of working capital but also due to the unrealistic level of minimum quantities set by the supplying organizations. If industrial development is to be encouraged may become necessary to subsidise the cost of supplying industries remote from the main industrial centres.

Marketing: inability to secure contracts is the major marketing problem and all the dormant societies visited indicated this as the reason for their inactivity meaning that 50 out of 171 actual or potentially active societies i.e. 29% could have this problem. The problem quoted of inability to produce or market prices and competition from state organizations are more related to the high cost of raw materials purchased in small quantities due to lack of

working capital. Late payment by customers also contributed to the above.

Financial: delays in auditing or non auditing of books is the most common problem. Of the 46 societies affected, 35 had never had an audit carried out over an average operating period of 4½ years and 11 had their audit carried out an average of 3 years late; and lack of an authoritative statement on the financial state of the societies was the main reason why societies were unable to get bank loans.

Training: A big percentage of the societies visited indicated that they had received no training beyond the skill acquired as artisans before the formation of their units and many of the members considered training in basic management, bookkeeping and accounting to be helpful.

#### 7. ROLE OF FINANCIAL INSTITUTIONS:

For several years now small scale units have enjoyed financial assistance from the national financial institutions mainly National Bank of Commerce (NBC) and Tanzania Rural Development Bank (TRDB) of late the NBC has issued a statement and financial policy governing the activities of the Bank is so far as financing small scale industrial units. In general the policy states that:

- The bank shall take steps in its powers to promote the development of small scale industries (SSI) in Cooperative with SIDO and other agencies involved in assisting such units.
- The bank will seek to mobilise financial resources both internally and externally.
- As a general policy the bank will extend its financial assistance to SSI projects falling in productive industrial



sectors of the economy. In line with national economic priorities in selecting SSI projects for possible financing the Bank will give particular consideration to projects which are labour-intensive, export oriented, import substitution and predominantly based on local raw materials.

- That the Bank may finance up to maximum of 85% of an expansion of an SSI project provided the Combined value of existing assets and the assets to be added on it is not less than two times that value and,
- As a national financial institution the NBC in collaboration with SIDO will render technical assistance and advice to its SSI client in matters of project planning, organization, monitoring and undertaking rescue operations. Great emphasis will be placed on the use of suitable management techniques among the banks' SSI client through a number of training programme.

On the other hand the PRDB besides financing agricultural inputs will continue financing small scale units which indulge in processing of agricultural produce.

8. FINANCIAL ASSISTANCE FROM INTERNATIONAL BODIES (UNIDO, ICA, COFAC ETC)

Tanzania Government is very grateful for assistance it has enjoyed from different International organization in promoting the industrial sector. Specifically we are thankful to SIDA and UNIDO for their recent study on the existing units and their future prospects. The report has enabled the Government to know where we are in respect to industrial cooperatives. Information gathered from this report will enable the Cooperative Secretariat now engaged with formulation of institutional framework and guideline on cooperative movement to give the

industrial cooperative their due attention.

However we shall still seek assistance in promoting specific projects oriented towards the development of industrial cooperative in form of finance, experts and training packages, equipment and machines for established and potential units especially since the government has decided to restate the cooperative unions.

9. CONCLUSION:

The paper has highlighted the role of industrial cooperative in the development of industrial sector in the country. The role of government, SIDO and financial institutions like NBC and TRDB in establishing and promoting industrial Co-operative were mentioned. A successful attempt to put industrial Cooperative on their right footing should start with solving the above mentioned problem by utilising the resources we have as well as seeking external assistance. One of the key tenets of our long-term industrial strategy is to establish small and medium scale industries in the regions, districts and villages with the objective of locating production of basic goods close to the people and at the same time achieving an equitable distribution of industries in the regions and zones. The people in the rural areas live in organised villages which are by themselves multipurpose Cooperative societies. Hitherto, these societies have been service and agricultural oriented. The injection of industrial Cooperative into their activities will broaden their economic base. Industrial cooperatives are thus the main tools for mobilising local human and financial resource for the achievement of our national objectives of economic growth and social development, particularly in our industrialization process.

INDUSTRIAL CO-OPERATIVES IN PERU

BERTHA BEATRIZ ARENAS-MONTELLANOS  
Instituto Nacional de Cooperatives  
(INCOOP), Lima, Peru.

<u>Contents</u>	<u>Page</u>
1. Background	i
2. New General Law of Co-operatives (Decree Law 85 and 141) and Industrial Co-operatives.	3
3. Actual situation of industrial co-operatives	3
4. Obstacles impeding the promotion and effective running of industrial co-operatives.	5
5. Projection of industrial co-operatives	5
6. Types of assistance required	7

CONFERENCE ON THE ECONOMIC AND SOCIAL POTENTIAL OF  
INDUSTRIAL CO-OPERATIVES IN DEVELOPING COUNTRIES, ARUSHA,  
TANZANIA. FEBRUARY 15 - 19 , 1982.

BACKGROUND.

For a better understanding of the development of Industrial Co-Operatives in Peru, we have to go through its historical background.

The oldest antecedent of the Industrial Co-Operatives in Peru is the creation of the Industrial Co-Operative of Emolients and Similars N° 77, legally recognized on July 12, 1945. Subsequently, it was also recognized another four co-operatives, before the promulgation of the first General Law of Co-operatives n° 15260 took place on December 14, 1964.

The Article 7°, Clause "h" of such law duly recognizes the existence of Co-operatives of Production and of Work, which main objective is to be a source of work for its associates.

Under this class of co-operative, it was organized two sub-classes which were: Cooperatives of Production, - which objective was to develop an economic/productive activity performed by its associates- ; and the Co-operatives of Work -which were organized to offer specialized services of a craft or a profession, through its jointly and coordinated lendings.

The principal co-operatives of production can be found in the manufacturing industry, wood and sugar industries, bricks, graphic, metallurgic, and shoe industries, etc. The co-operatives of work can be found in hotels, or factories (mills of wood, construction, etc) among the principals.

Most of the co-operatives of production and of work developed in Peru, were organized on the basis of privatized companies in bankruptcy or leaved by their owners, for which reason such co-operatives have had a weak development due to the fact that they had to charge with economic and financial problems of the companies which originated them.

Among those problems, we can mention:

- Lack of working capital.
- Limited possibilities to obtain lendings.
- Lack of markets for selling their products.
- Low possibilities to compete in markets.
- Old fashioned machinery, and low possibilities to renew them.

Besides, there are also social problems generated as a consequence of its transformation in a co-operative enterprise.

We can find an increase of co-operatives established on the basis of companies in loss starting from 1974. This was evident when the Law Decree 21584 took place in 1976 which stated that all companies in bankrupt or abandoned, had to be transformed in a co-operative of production and work; so, the co-operative system was used to impede unemployment, notwithstanding that this has not been enough to establish a solid sector which could be able to generate more employments or investments of profits, which, in an economy in crisis, means scarce possibilities of growing due to the limitations and difficulties that this represents.

The industrial co-operatives, as an specific type, start with the New Law of Co-operatives of May 20, 1981. All co-operatives which already exist in our country must be adequated under this legal disposition.

New General Law of Co-operatives (Decree Law 85 and 141)  
and Industrial Co-operatives.-

This new law was promulgated on May 20, 1981 and determines the existence of Industrial Co-operatives (Art.7, 2.8). This delimitation of the industrial activity as an specific type of co-operative, involves several advantages such as:

- it facilitates the issuance of appropriated laws for this kind of co-operatives.
- it allows the adoption of measures for the promotion and protection of this economical sector.
- it permits to carry out investigations to determine the characteristics, problematic and projections of these co-operatives, etc.

In spite of this law determines the type of industrial co-operative, we can find other type of co-operatives which develop industrial activities yet, such as: sugar refinery co-operatives, mining co-operatives, specialized production co-operatives, coffee co-operatives, fishery co-operatives. All of them converts their own products, but they are legally considered as a special kind of co-operatives due to the activities they develop.

Actual Situation of the Industrial Co-operatives.

In our country as well as in other developing countries, there is a weak industrial sector, if we compare it with other extractive activities such as raw material (mining or agricultural) activities. For this reason, the existence and growing of the industrial co-operatives have a great importance in the economic and social development of our country. As mentioned before, most industrial co-operatives were created under the Law Decree 21584 which determined the transformation of private companies in bankruptcy or abandoned, into co-operatives.

By the same way, agricultural co-operatives were created under the Law Decree 17716 which expropriated latifundiums to establish co-operatives (agricultural/industrial).

Under these considerations, the role of these co-operatives in the mobilization of local, human and financial resources for the achievement of national objectives of economic growth and social development, have not been significant, due to the fact that its participation in the economic development of our country has been similar to the private companies which originated the co-operative.

In spite of the existent difficulties, the industrial co-operatives subsist, fulfilling their objectives, providing employment, salaries as well as services to their associates, benefiting the society with their products, and facing the financial crisis which our country is bearing.

On the other hand, it have also appeared industrial co-operatives in the classic manner, it means, through the joining of people and capital in order to constitute industrial co-operatives which have received credit assistance from Local Banks State-Owned. These initiatives have not gotten the appropriate grade of development due to the fact that during the 12 years of Military Government, the Social Property Enterprises have the priority in their Politic Project.

In 1980, the New Politic Constitution of our country began to be in force, and it includes several rules regarding co-operatives. For example, its Article 116 promotes the free development of co-operatives and the autonomy of the co-operative organizations.

When the Democratic Government is established, and based on the dispositions of the New Constitution, it is



promulgated the New General Law of Co-operatives through the Law Decree N° 85 (May-20-1981) which we will analyze farther on.

Obstacles impeding the promotion and effective running of Industrial Co-operatives.

- Absence of a system for tributary protection to Co-operatives, which permit them to face the competence of other enterprises, sometimes powerful.
- Absence of a technology which adequates to the characteristics of peruvian co-operatives.
- Difficulty in obtaining financial support for the development of projects and financial programs.
- Absence of organizations or institutions which offer technological advise to get a better performance of their activities.
- Lack of a laboral/co-operative legislation which state co-operative principles, reciprocal assistance, and solidarity within their laboral relations, which offer specific benefits and incentives to ther associated-workers.
- Absence of adequated resources to instruct and train their associates, leadings, and rented workers.
- Absence of integration organisms which groups industrial co-operatives, etc...

The New General Law of Co-operatives is trying to overcome some of these obstacles.

Projection of Industrial Co-operatives.-

The New General Law of Co-operatives offers good perspectives for the co-operativism in general.

First of all, we have to mention that this Law states that it is a national need and of public utility, the promotion and protection of co-operativism, as an efficient system to contribute to the economic development, the enforcement of democracy and the fulfillment of social justice.

Besides, this new law guarantees the free development of co-operativism and the autonomy of co-operative organizations.

Under these governmental politics, the law determines measurements which trend to the promotion, protection, aid and advice to co-operatives, such as:

- Creation of National Institute of Cooperatives (INCOOP) as an state organism for the promotion, advise, supervision and support to the national co-operativism.
- It is proposed the creation of a National Institute for Co-operative Financing (INFICOOP), as a public institution in charge of the foment, promotion and financing of the co-operative movement.
- It is established a Protective System for co-operatives which includes tributary exonerations, incentives for those who makes deposits in effective or term loans, or who makes donatives in favor of co-operatives.
- It is promoted the co-operative integration in a national level, through the offering of tributary incentives.
- It determines the incorporation of representatives of INCOOP in the state credit institutions.
- It determines the promotion of permanent co-operative education; etc...

Types of Assistance Required.

The contribution of international organisms in the development of industrial co-operatives, must be directed towards the following aspects:

- Technical assistance through coordinated projects which must include several organisms (inter-governmental and non-governmental).
- Training of specialized technicians in industrial co-operatives.
- Offering of fellowships for the study, and training of leadings and qualified rented workers.
- Organization of international events to promote the interchange of experiences about industrial promotion technics in co-operatives.
- Financing for plans and programs of development for co-operatives integration organisms.
- Initiation of sistematic investigations about structures, work methods and problematic of cooperative movements in developing countries.

Name: Bertha Beatriz Arenas Montellanos.

Charge: Direction of Training.

Organization: Instituto Nacional de Cooperativas,  
(INCOOP), Lima - Peru.

INDUSTRIAL CO-OPERATIVES IN INDIA

K. SHREEDHAR RAO

National Federation of Industrial Co-operatives

CONFERENCE ON ECONOMIC AND SOCIAL POTENTIAL OF INDUSTRIAL  
COOPERATIVES IN DEVELOPING COUNTRIES

ARUSHA (TANZANIA)

15-19 February, 1982

Subjects: THE INDIAN EXPERIENCE

The Indian cooperative movement can be said to have commenced with the passage of the first Cooperative Societies Act in 1904. Cooperation as a method of management was applied primarily to credit cooperatives to start with, though as early as 1916 certain cooperatives organised by weavers and tanners had made their appearance. With the recognition by the Government of India of the need to promote cooperatives societies in the handloom sector in 1923 and the encouragement offered by Government a number of societies started getting organised in the early 1930s. After Independence in 1947 with the commencement of the planned approach to economic development and in keeping with the Government's declared intention to establish an egalitarian society, Government's commitment to the cooperative form of organisation became even more pronounced. This policy was expected to be operated in the field of industry, in conjunction with the establishment and promotion of small and village industries as one of the corner-stones of the Industrial Policy. As a result of this there was a big boost given to the formation of cooperatives in the field of industry. The following table would show the manner in which the industrial cooperatives have grown in the country.

PROGRESS OF WEAVERS PRIMARY COOP. SOCIETIES DURING THE FIVE YEAR PLANS

<u>Year</u>	<u>Number</u>	<u>Membership</u>	<u>Production</u>	<u>Sale</u>
End of Second Plan (1960-61)	11,903	13,10,800	34,27,84	36,98,61
End of Third Plan (1965-66)	12,947	13,14,746	84,01,37	63,53,41
End of Fourth Plan (1973-74)	12,361	11,84,307	207,79,36	143,50,36
During Fifth Plan(1977-78)	14251	10,89,596	187,17,78	112,73,81

Contc...2.

PROGRESS OF INDUSTRIAL PRIMARY COOPERATIVES OTHER THAN WEAVERS DURING THE FIVE YEAR PLAN PERIODS.

<u>Year</u>	<u>Number</u>	<u>Membershin</u>	<u>Production</u>	<u>Sale</u>
End of Second Plan (1960-61)	21,288	12,17,318	16,14,49	17,93,69
End of Third Plan (1965-66)	34,950	15,99,547	48,28,60	36,69,46
End of Fourth Plan (1973-74)	34,435	17,10,361	78,85,82	50,31,69
During the Fifth Plan	24,804	14,78,348	85,29,77	76,68,08

SOME MORE FACTS ABOUT INDUSTRIAL COOPERATIVES

<u>Particulars</u>	<u>1957-58</u>	<u>1960-61</u>	<u>1962-63</u>	<u>1965-66</u>	<u>1976-77</u>
Membership per society	85	77	67	64	49
Average working capital per society	17110	16110	18000	23130	37787
Average working capital per member	190	210	270	360	770
Percentage of owned funds to working capital	39	39	39	38	41
Average sales per society	27580	21000	21000	27730	37042
Percentage of societies running in profit	44	38	35	33	27.2

-----

The cooperative method of management has been considered most suitable for a country like India where a large population has to compete for the limited resources at the country's disposal. The per capita resource availability being limited, the only method by which operations could be successfully managed was to pool the resources. The cooperative form of organisation was considered to be the best possible viamedia between the individual enterprise and collectivisation retaining the advantages of individual freedom of enterprise, while at the same time enabling the enterprise to obtain economies of scale, and attain a better bargaining position for supply of raw materials and in the sale of goods.

Given the fact that theoretically every one of the members of the society is also the owner of the enterprise, the cooperative form of organisation was expected to provide the best possible answer to the vexed problems of labour management relations. This approach has been successfully applied in the fields of agriculture and credit as well as marketing and a very large number of successful cooperative societies operate throughout the country. With the emphasis on Small Scale Industries the method which has been tested and tried in the fields of agriculture, credit and marketing was sought to be applied in the field of industries as well and Government made it a policy to bring about as large a cooperative coverage as possible in the field of small industries.

Further cooperativisation it was felt offered the only salvation to the rural artisan. The situation in this regard was characterised by the existence of a large number of artisans who could command no resources other than their own individual skills. By their own efforts to market their skill these artisans were just able to eke out a living. In several areas this system could not sustain the artisans and it was feared that the skills which were basically inherited may as well die out. Government therefore evolved a conscious policy of bringing about a system where the available skills could be organised in such a manner that as far as possible, there is centralised production, centralised availability of raw materials, availability of finance and common facilities so that the products are manufactured as a result of collective effort and on a sustained basis. Marketing efforts could then be organised for these products. It is with this approach that a concerted effort was launched by the Government and in the field of handloom and handicrafts as well as a number of industrial products the Indian experiment has resulted in the emergence of a chain of cooperatives through out the country which have been able to mobilise

locally available skills taking advantage of the natural resources and the assistance provided by a number of agencies who have been instrumental in financing all stages of production. As a result of this, it may be stated that the handloom production of India has increased six times from the time the country attained independence. The same can be said in respect of handicrafts where a large number of societies have been organised which have been able to utilise and promote the skills that are locally available and apply the same to locally available raw materials. These have resulted in substantial increase in the per capita earnings of individual artisans and a very large increase in the value of goods produced and their market have been expanded within the country as well as outside. The production of handicrafts in the country is estimated to have more than quadrupled since independence. Nearly 45% of the handicrafts produced in the country are exported.

As would be evident from the above paragraphs the Government has from the very beginning taken extremely keen interest in the organisation, promotion and development of cooperatives in general and industrial cooperatives in particular in the country. The Government of India is basically responsible for:

1. Formulation of viable policies and programmes in respect of cooperative sector from time to time;
2. Enactment of cooperative legislation and its execution;
3. Coordination between public sector undertakings and cooperatives;
4. Financial assistance.

Besides the Government themselves, at the all India level there are a number of agencies which look after the specific requirements of cooperative societies. The National Cooperative Development Corporation is responsible for all types of cooperatives including some



industrial cooperatives whose infrastructural needs are financed by NCDC. The National Federation of Industrial Cooperatives is an organisation responsible for the promotion and development of industrial cooperatives and marketing their products. The All India Handloom Cooperative Marketing Federation is responsible for marketing of handloom products. The Khadi & Village Industries Commission is responsible for looking after the special needs of certain types of village industries and production of Khadi cloth. The Development Commissioner Handloom is a full time officer in the Government responsible for formulating and implementing the schemes for the benefit of the cooperatives in the handloom sector. The Development Commissioner of Handicrafts is responsible for the development of handicraft sector. The Reserve Bank of India which is the Central Bank of the country takes special interest in the financing of industrial cooperatives and has a series of well developed financing schemes for meeting the requirements of handloom sector. In order to coordinate and lay down policy guidelines involving Central Government Agencies and the State Governments a Standing Committee on Industrial Cooperatives has been constituted at the Government level.

Basically industrial cooperatives is a subject dealt with by the State Governments who are responsible for promoting and looking after the needs of industrial cooperatives. They are guided by the policy directives of the Central Government and the Registrar of Cooperative Societies and in some cases the Director of Industries of the State Governments are responsible for establishing and promoting industrial cooperatives. As regards financial institutions a number of institutions which include State Governments who advance loans under the schemes for State Aid to industries, Central cooperative banks, commercial banks, State finance corporations etc., look after the financial needs of the industrial cooperatives. Besides there are

industrial cooperative banks in certain States which look after the financial needs of industrial cooperatives. There are no doubt cooperative banks which look after the needs of all cooperative societies and industrial cooperatives also derive finance from these cooperative banks. Reserve Bank of India as mentioned above has a special scheme for financing handloom cooperatives whereby, it, through central cooperative banks makes funds available at  $1\frac{1}{2}\%$  below the bank rate and the losses are to be shared between the Central Government, State Governments and the Reserve Bank of India in the ratio of 50:40:10. Loans are available to finance purchases for 90 days for purchasing of yarn and for production and marketing upto 12 months.

Over and above the agencies enumerated above, at each District and State level the primary societies have been able to come together in the form of District federations and State federations. These are in turn affiliated to the National Federation of Industrial Cooperatives. While some of the District and State Federations have not been active it must be stated that several State federations have been able to do considerable work in the development of industrial cooperatives, in particular, in the marketing of the products manufactured by them. They have been able to provide a series of marketing outlets through out the geographical areas covered by them and these have been very successful in satisfying the needs of the consumers at reasonable prices, while finding stable outlets for the products of industrial cooperatives.

Industrial cooperatives in India manufacture a very wide variety of items, which include woollen knitwears, engineering items, leather, coir, etc. In general the societies' performance has not been satisfactory and the rate of dormancy among them is very high. The reasons for their poor performance can be summarised as follows:-

1. Far too rapid an expansion in the number of industrial cooperatives in an unplanned manner in the sixties as a result of which several non-viable societies came into existence.
2. The lack of proper legislative frame work to look after the regulatory and administrative functions of industrial coops.

It may be added that the existing legislation was designed to basically look after the needs of agricultural credit societies and these provisions are being applied to industrial cooperatives with very few modifications. The emphasis has been far too much upon the growth in members rather than establishment of viable societies. This point has been widely debated and it has been suggested that provisions should be made in the Cooperative Acts which ensures that only those societies which have a good chance of growing into viable societies should be registered. Further to look after the financial management of cooperative societies proper provisions should be made for their timely audit and supervision.

3. Lack of professionalism in the management of industrial coops.
4. Absence of an effective central agency capable of organising production and marketing as well as provide infrastructural needs of primary societies including processing facilities, storage and training-cum-production facilities. The existing central and state agencies appear to be inadequate to look after the needs of industrial cooperatives in this regard.
5. Poor efforts to improve technology and market intelligence in respect of products manufactured by industrial cooperatives. There are also no arrangements which ensure a continuous inflow of improvements in technology and designs to bring about the improvement of products manufactured by Industrial cooperatives. Even in regard to training while arrangements are available in National Cooperative Union of India and in the State Cooperative

Colleges the existing training facilities are not fully availed by the cooperatives.

Formation of cooperatives is a response to the prevailing situation in India. The same situation is perhaps obtainable in quite a few developing countries. The persons involved have no other asset except their skills and if they have to survive and improve their economic well being the only course of action is to pool their resources and on the basis of their combined strength bid for resources which are not available with them. Substantial external assistance is required for the success of these experiments like governmental assistance, help from financial institutions, etc. Such a programme on the part of the Government should be regarded as a socio-economic effort to generate gainful self employment among a large number of people whose living standards can not be improved in any other manner and the skills that they have may well die out, if they are not organised into cooperatives.

The Indian experiment can lead one to the following conclusions:-

1. The industrial cooperatives are suited to a situation where a set of individuals command no resource other than their own skills.
2. The success of the cooperatives depends to a very large extent on the motivation and dedication shown by the individual members.
3. Professional management becomes extremely important as the size of the society grows. There is no real conflict between professional management and democratic control.
4. Emphasis should be shifted from growth in numbers to the establishment of viable industrial cooperative societies who can in the course of time attain self sufficiency in regard to resources.

5. In the initial stages it is important for Government to formulate and implement a well thought out programmes for the promotion of industrial cooperatives and regard the efforts as a socio-economic policy action.
6. A great deal of emphasis has to be laid on the education of members, as it has been found that enlightened membership is a key factor in the success of cooperatives.
7. Where there is a conflict between a member's individual interests and that of the cooperatives, it is usually the individual's interest that takes precedence over the cooperative interests.

Given the fact that the formation of industrial cooperatives offers a method for providing gainful employment to a large number of people who are not in a position to raise resources required on their own, it will be appropriate that international agencies like the UNIDO take a greater interest in this form of economic management and to begin with establish a machinery by which there can be regular exchange of information on the experience of industrial cooperatives in various developing countries. Secondly a system may be developed by which expertise in the organisation and management of industrial cooperatives is made available by the international bodies to those developing countries, who need such assistance. Thirdly organisation like UNIDO should arrange for establishment of consultancy services and transfer of technology from one developing country to the other as also appropriate technology that may be available from the developed to the developing countries. Fourthly, it will be appropriate if further intensive research studies are undertaken to understand the special problem of industrial cooperatives and the kind of legislative and administrative frame work that is required for healthy development

of industrial cooperatives. Fifthly, considering the need for expanding marketing outlets for the products of industrial cooperatives, it will be appropriate if under the aegis of the International Trade Centre, a central display arrangement is made in Western Europe so that cooperatives can have a facility to show their products to potential buyers and gain adequate publicity. The display centre can be combined with warehousing facilities which can be utilised by the industrial cooperatives for making on the spot supplies.

\* \* \* \* \*

PROJECTS THAT MAY BE PROMOTED IN INDIA  
WITH INTERNATIONAL ASSISTANCE

I. CENTRE FOR TECHNOLOGY TRANSFER

Industrial Cooperatives have been established in India in a very wide variety of fields. Basically they have been found relevant where operations are of a small scale nature and the skills of the workers have to be supported organisationally by provision of facilities, finance and marketing. The experience has been that the cooperatives have been able to produce a wide variety of goods but they have not been able to improve the quality of goods and keep in touch with changes in technology as well as market tastes. Given the fact that innovations suitable for this type of organisation are not always available to the cooperatives a machinery is required which can function as a channel for continuous inflow of technological innovations to the cooperative sector. It is, therefore, proposed that a Centre for transfer of technology be established in India with the assistance of International agencies. Such a Centre for technology transfer can look after the following requirements:-

1. Conduct specialised and specific studies regarding the input requirements of Industrial Cooperatives.
2. Evolve innovations in methods of production, design and develop suitable machinery and organise inflow of innovative ideas from developed to developing countries and from one developing countries to another developing country.
3. Have specialised wings for looking after the requirements of specific industries relevant to the situation in the country. For example leather is an extremely important labour intensive industry where local raw materials and skilled manpower are available. What is required is the development of machinery and methods of production which can increase the out put per capita.

4. Function as a channel of information regarding changing fashions and market requirements.
5. Arrange for specialised training to improve the skills of the work force.

## II. ESTABLISHMENT OF A NATIONAL DISPLAY CENTRE IN INDIA.

One of the major problems confronted by the Industrial Cooperatives is the inability to arrange for adequate marketing channels for their products. While the effort on the part of the existing institutions both at National and State level to open up larger number of outlets has been successful, the efforts need to be stepped up so that not only the volume of internal trade is substantially increased but also see that export outlets are established. For this purpose it is necessary to have a National Display Centre in India where products of Industrial Cooperatives can be given an opportunity to be exhibited and buyer-seller meets arranged. Such a Centre not only will provide an opportunity for increasing the flow of inter-regional trade but more importantly will serve as a very useful Centre for attracting buyers from abroad who can instead of having to travel from one end of the country to the other, be exposed to the wide variety of the goods manufactured by the Industrial Cooperatives in the country and be enabled to make their choice out of the products displayed.





CONFERENCE ON ECONOMIC AND SOCIAL POTENTIAL OF INDUSTRIAL CO-OPERATIVES  
IN DEVELOPING COUNTRIES

BACKGROUND PAPER:

INDUSTRIAL CO-OPERATIVES IN ETHIOPIA

PETER ABELL

January 1982

## CONTENTS

Introduction

The Current Situation in Ethiopia

Obstacles to the Creation of Industrial Co-operatives

The Role of HASIDA (Co-operative section)

Possible Lines of Support by UNIDO

Relationship of the Ethiopian Experience to the

Findings of the ICA research project

## BACKGROUND PAPER: INDUSTRIAL CO-OPERATIVES IN ETHIOPIA

Introduction

Ethiopia has, since the revolution, chosen a rather pragmatic socialist road to economic development - The National Democratic Revolution Programme. Within this framework which is perhaps best described as a mixed economy with an emphasis on state owned enterprises in the larger industrial establishments producer co-operatives in both the agricultural and industrial/handicrafts sectors have been given a role to play. Proclamation Number 138 (1978) 'provides for the establishment of Co-operative Societies' and prior to this in 1977 proclamation 121 'provided for the establishment of a Handicrafts and Small-Scale Industries Development Agency' (HASIDA). The pre-revolutionary statutes pertaining to co-operatives date from 1958 and are designed essentially for multi-purpose co-operatives whereas since the revolution single purpose co-operatives have been given prominence. Handicraft (craftsman producer) co-operatives are established in Ethiopia under the auspices of a Directive issued by the Provisional Military Government which supplements proclamation 138.

Co-operatives are very much construed as an aspect of socialist economic organisation - they are in fact established 'to encourage collective ownership of the means of production' (proclamation 138 preamble). Article 3 of the proclamation is quite explicit:

'Co-operatives shall be organised for the following objectives

- 1) to develop self-reliance and to promote the interests of their members
- 2) to put the means of production under the control of co-operatives and to transform them gradually to collective property as may be necessary
- 3) to increase production
- 4) to expand industries
- 5) to conduct political agitation
- 6) to eliminate reactionary culture and customs
- 7) to participate in the building up of a socialist economy
- 8) to accumulate capital and to mobilize human resources to sustain economic development

The same proclamation recognises four types of co-operative producers - Co-operative societies; service co-operatives; thrift and credit co-operative societies and housing co-operatives.

The Directive on Craftsmen Producer Co-operatives mentions bringing to an end the exploitation of capitalism and says handicraft co-operatives should be guided by a central plan. Furthermore, craftsmen producer co-operatives will follow democratic centralism and be guided by the principle 'from each according to his ability to each according to his work'. There is at present no directive to supplement proclamation 138 in connection with industrial co-operatives (as distinct from handicraft co-operatives) though recommendations are currently before central government. The directive on handicraft co-operatives has, therefore, to serve in this respect despite the fact that it is recognised as inadequate; for example free entry is permitted.

The emphasis on building up indivisible collective (social) capital is very evident in the article 33 of the directive on Craftsmen Producer Co-operatives:

'Every craftsman producer co-operative society shall after deducting necessary expenses and paying debts and taxes from its income, shall, in accordance to the quality and quantity of work done by the members make payment necessary for their livelihood and shall put aside from the remaining about 60% for production work and means of production, 25% reserve, 13% for social affairs and 2% for reward.'

In practice the payment to members is fixed by HASIDA and so there is little latitude for members of a successful handicrafts co-operative to consume high proportions of the value-added. There is no explicit allowance for returns to private capital and indeed the initial capital endowments for members are seen as membership fees not as private equity. Thus, unlike in Nigeria and Kenya, the legal framework within which producer co-operatives operate is very much slanted towards a collectivist ethic. This is further emphasized in Article 13 which discusses higher-order co-operatives ('associations' and 'Unions' of co-operatives) which are established to 'make the societies (ie primary societies) transfer their private means of production and other holdings to communal property by centralizing their labour and financial resources.

### The Current Situation in Ethiopia

At the end of 1981 there were, in Ethiopia, 3,378 agricultural service co-operatives and 712 agricultural producer co-operatives. These latter had a membership of 53,875. There were, in addition, 820 Handicraft and Industrial Co-operatives with an average membership of 100. These are located in 17 different sectors and are widely distributed throughout Ethiopia. Despite the provision for Co-operative Associations and Unions they do not exist in the Handicraft/Industrial sector though the Co-operative section of HASIDA acts as an Apex. The Section is, however, financed by Government, not by the Primary Co-operatives.

The Handicraft Co-operatives in practice have very few collective assets as the members are skilled craftsmen owning what few simple tools they need for their trade. Their co-operatives are thus to a large degree of a service type providing raw materials and marketing facilities. To a degree then the earlier quoted articles emphasizing indivisible social capital are, until such a time arrives when collective assets grow, merely rhetoric. There is, however, under way a development, though only in its early phase, comprising 5 genuine industrial producer Co-operatives each with a membership of about 150. They are located in the Blacksmithy, Tinsmithy, Ceramics, Garments and Leisure goods sectors. The project is financed by the Industrial Co-operative Development Fund and supervised by the ILO(?). The suggestion is that the Co-operatives will, after honouring their debts, taxes and paying a fixed wage rate distribute 25% of the residual revenue to members; this is in marked contrast to the requirements of the directive on Craftsmen Producer Co-operatives which only allows a 2% distribution. The initial finance for the co-operative will come from the Government via the Industrial Development Plan and will be repayed at a rate of 5% over 8 years. Whether or not these co-operatives prove viable time alone will tell.

### Obstacles to the Creation of Industrial Co-operatives

Prior to the revolution there were in Ethiopia very few industries with the result that there is within the country a very low level of industrial and technological culture. Since the revolution there has been a concerted effort to establish an industrial sector but the skills - practical, managerial and entrepreneurial - which are essential to manufacturing industry are still in short supply. Although Ethiopia is committed to a socialist road to development small scale private enterprises are encouraged and would-be industrial co-operatives find themselves in competition with them. Necessarily, therefore, a shortage of Managerial expertise affects the co-operative movement. There is also very little understanding of the nature of and advantages of co-operative production in the general population and, as I have noted, Co-operative law is not yet formulated in such a way as to be helpful to producer co-operatives.

Specific factors which were mentioned included (a) a shortage of raw materials for industrial production (b) lack of infrastructure (water, electricity, roads, etc) (c) a shortage of finance for the purchase of basic machinery.

In fact the list of woes appears to be pretty much the standard one in developing countries. There are, however, plans to establish a Co-operative College in 1982 partly financed from the ILO and Norwegian Government.

### The Role of HASIDA (Co-operative Section)

The Co-operative sector of HASIDA acts as a multi-purpose Apex and provides the following services:

- general educational work
- bringing scattered artisans into co-operatives
- acquiring and distributing raw materials
- market research
- the distribution of improved machinery and tools
- liaise with State and public agencies and coordinating their impact upon co-operatives
- arrange credit.

However, the role of HASIDA, in respect of co-operatives, seems to be one of promise rather than accomplishment.

Possible Lines of Support by UNIDO

I understand that four co-operative projects seeking support by UNIDO are at the moment being finalised in HASIDA. These were prompted by a visit from UNIDO personnel in 1981. There seems, therefore, little reason until these are evaluated to make further suggestions though feasibility studies of Agro-processing were mentioned to me as a possible line of development.

Relationship of the Ethiopian Experience to the Findings of the ICA research project

The emphasis on indivisible collectively owned funds (social capital) and the concomitant negligible returns to any private investment is of course ideologically motivated in Ethiopia. Although the ICA research proposal did not find any evidence to suggest social capital was detrimental to the validity of industrial co-operatives, Vanek has instanced precisely this as the major factor leading to the 'poor historical record of co-operatives'. This will clearly be an issue which we will wish to discuss in Arusha.

The lack of training facilities and the generally low level of education of the potential members of Co-operatives does not bode well for co-operative development. In particular the giving of concessionary finance to the five experimental co-operatives mentioned without guarantees of appropriate capital management flies in the face of our recommendations.

It will clearly be interesting in Arusha to discuss the differing roles that Co-operatives can play in the context of broadly speaking Capitalist and Socialist property relations.

PA/ME

7.1.82

CONFERENCE ON ECONOMIC AND SOCIAL POTENTIAL OF INDUSTRIAL CO-OPERATIVES  
IN DEVELOPING COUNTRIES

BACKGROUND PAPER: INDUSTRIAL CO-OPERATIVES IN KENYA

PETER ABELL



## C O N T E N T S

Introduction

Development of the Industrial Producer Co-operative Sector

The Future of the Industrial Co-operative Movement

Agro Processing Co-operatives

Factors Hindering the Development of Industrial Producer  
Co-operatives

Some Possible Avenues for support by UNIDO and the  
Co-operative movement

The Industrial Co-operative Movement in Kenya in relation  
to the ICA research Project.

## BACKGROUND PAPER: INDUSTRIAL CO-OPERATIVES IN KENYA

### Introduction

The promotion and encouragement of Co-operatives has been integral to the plans for the socio-economic development in Kenya almost since independence. The Development Plan 1979-83 has a special section on Co-operative Development whence:

"The Co-operative movement, in fact the whole concept of co-operation, should be regarded as an organizational tool for promoting rural development generally and income sharing opportunities in both rural and urban areas. However, co-operatives have to prove themselves to be at least comparable with other organisational forms in providing goods and services in order to justify the continued investment of resources in them".

The report goes on to say that 'emphasis will be placed on improved performance'. In 1979, according to the same source, there were 1,437 active co-operatives in Kenya with a membership of 976,545, a turnover of K 148,536 x 10<sup>3</sup> and Share Capital of K 18,888 x 10<sup>3</sup>. The vast majority of them are in the agricultural sector being buying and marketing co-operatives. There are, however, 55 consumer co-operatives, 28 housing co-operatives, 27 fishermans co-operatives and 476 credit and savings co-operatives. In addition there were in 1977 39 District Unions and an Apex organisation, the Kenya National Federation of Co-operatives (KNFC). The numbers in all sectors have grown since 1977. The number of 'industrial' co-operatives is not specified in the National Plan and I got rather differing estimates of the number in Kenya - this in part derived from definitional problems but also in part from lack of knowledge in Nairobi concerning the numbers which are dormant. There appear, however, to be (in 1981) about 15 handicraft Co-operatives operating throughout Kenya with a total membership of 3 to 4,000 and a handful of building and construction and Agro-processing Co-operatives. The National Plan (1978-83) does list building and construction co-operatives separately estimating that there were, in 1978, 61 and planning for 109 by 1983. These figures, however, appear to be in marked variance to the estimate I obtained (from the Ministry of Co-operative Development and the Union for Handicraft Co-operatives). There is a thriving Co-operative College of Kenya which was planned to attract K 0.6 million additional funds in the period 1979-81. The National Plan referred to also recognises as 'the most serious constraint' upon the development of co-operatives 'the shortage of qualified and experienced personnel needed to carry out accounting and management functions'. The report goes on to say that 'the personnel shortage is such that the Government, through the Ministry of Co-operative Development has to control and supervise many co-operatives to ensure their orderly growth'. Lack of appropriate technology for small scale production, of transportation, of storage and of repair facilities are also identified as important impediments to the growth of the co-operative sector.

### Development of the Industrial Producer Co-operative Sector

Kenya has, since independence, achieved an average rate of growth of 6% per annum, this high rate has, however, slowed recently with the international recession and the hike in oil prices. The growth has been achieved in both the agricultural and industrial (including Agro-processing) sectors. Approximately 90% of Kenya's population still live in rural areas and the population is growing at a rate of 2.6 - 2.8% per annum (The Urban population with better access to social and medical welfare is growing at over 8% per annum). It is estimated, therefore, that the rural population will double by the year 2,000. However, only about 12% of Kenya's total land area is suitable for rainfed crop

production (Small-Scale Co-operative Industries - Operational Plan for the Period 1st July 1979 to 30th June 1982). The expansion of agriculture to the semi-arid zones is possible with irrigation etc. but at a relatively high cost. The man-utilisable land ratio is moving in an adverse direction and so, apart from efforts to intensify land use based upon improved farming techniques and high capital cost reclamation schemes it is recognised by the Government that small-scale industries must play a role in the future development of rural areas. Economic diversification in rural areas will also have the advantage of reducing the drift of, especially the young, who are either economically inactive or under active, into the urban conurbations. It will thus have the advantage of reducing the pressure on facilities in these areas also (specifically Nairobi and Mombassa). Until quite recently most capital formation within the secondary and tertiary sectors has been confined to Nairobi and Mombassa, it is now the declared policy of the Government to amend this tendency by promoting small-scale rural industrialisation. Quite naturally given the shortage of capital and expertise and the abundance of labour it is intended wherever possible to base the industrialisation upon the utilisation of local resources in order to satisfy local needs using appropriate labour intensive techniques (National Plan 1979-83).

The Rural Industrial Development Programme was launched in 1971 with Kenya Industrial Estates as its main executing agent. Under the auspices of the Programme a series of industrial development centres has been established each of which offers loans to and provides premises for small-scale entrepreneurs (and in principle co-operatives also). In 1979 it was estimated there were some 8,000 crafts or small scale manufacturing units employing up to 25,000 individuals in rural areas. This comprises less than 1% of the economically active rural population. There is clearly a long way to go. Kenya Industrial Estates has itself so far established 4,258 workshops and 993 Factories expending K 15,270 x 10<sup>3</sup>.

Within the framework of the Rural Industrial Programme the Ministry of Co-operative Development is responsible for promoting the rural industrial co-operative sector including agro-based co-operative industries. It is the policy of the Government to allow privately owned and co-operative enterprises to compete in both the rural and urban contexts though, as the figures presented earlier indicate, there has to present been little co-operative development. Why this should be is not entirely clear but it reflects perhaps the long-standing preoccupation with agricultural co-operative and the shortage of manpower with the requisite expertise to promote industrial co-operatives within the Ministry and RDCs. The handicrafts section (which has its own union) comprises some 15 units, is largely urban based. What few industrial co-operatives have been established (excluding the building Co-operatives) have largely been promoted and encouraged by outside experts (NORAD), for instance Kiganjo Stone Casters in Kiganjo (Nyeri) and Kavetan Bricks in Kitui. The former (in 1981) had a membership of approximately 50 and the latter 100 (Ministry estimates). Both have been operating since 1978/9 and have survived heavy competition from privately owned firms though they have not experienced significant growth. Marketing problems, shortage of capital, undue bureaucratic hinderance of Governmental machinery and sharp-practising middle men (see below) have all made life troublesome for the fledgling co-operatives.

I could gather little information about the building and construction co-operatives. Consultants to the Ministry claimed that there were 6 or 7 but as I have noted the National Plan claims more than twice this number. Presumably a number are dormant. It appears that a number have received technical assistance from outside Kenya.

The Handicrafts Co-operatives (working in wood, basketry and stone carving)

have a total membership of some 3,000 though central records were not available. They again have faced financial and marketing problems - the latter partially because of the attentions of middle-men with spot cash (see below).

#### The Future of the Industrial Co-operative Movement

The picture then concerning industrial Co-operatives in Kenya is not to present entirely encouraging though I was repeatedly assured that Government thinking is to the effect that they should play a greater role in the future probably in the rural areas (The National Plan 1979-83 seems to vindicate this). To this end the Ministry of Co-operative Development has carried out a detailed survey attempting to assess the areas, geographically and sectorally, where potential lies. It identifies three major product groups and services - farm equipment/repairs; furnishings and household utensils, and clothing/footwear. In 1978 the small scale sector had only a 10-15% market share in these areas. What is more, based upon estimates of income and population growth, it is predicted that these markets will expand by some 40% to 1985 though this expansion will be unequally distributed regionally. At present in so far as local small scale industries do satisfy the market they do so on the basis of small household production and repair activities; there is little tendency for any horizontal integration and technical upgrading of these activities as the space and capital requirements (though modest) are out of the reach of most craftsmen. There is not, however, a shortage of skills in the countryside, the village Polytechnics and the Youth Development Programme have provided opportunities for training in skills such as masonry, carpentry, blacksmithy, tinsmithy, metal-work, motor mechanics, welding, tailoring etc. These skills are under-utilised.

Studies within the RIDP have shown that attempts to provide technical assistance and financial support to widely scattered household industries is administratively complex and extremely costly. (Operational Plan for Development of Small-Scale Co-operative Industries) Development Planning Division, Ministry of Co-operative Development 1978).

The Ministry, therefore, has advocated a 'co-operative approach' whereby enterprises should be 'established in main marketing and trading centres' and 'organized as multi-purpose work-shops' which will serve the market demand of each selected centre. Each co-operative would have about 10 members - the minimum number required in law (The Co-operatives Societies Act Rev.1972 clause 6). It is hoped that such workshops will offer members advantages in terms of regularised supplies, access to the market, and an efficient use of scarce capital resources. In short there will be some economies of scale (individually owned household enterprises have an average of 2-3 workers).

In 1979 the Ministry (with the technical assistance of NORAID) proposed a three year pilot study whereby eight multi purpose co-operative workshops would be established (in Kisii Kakamega) and if they reached expectations a programme would be implemented aimed at establishing workshops in five additional 'high potential zones'. There have unfortunately been various delays and so far only three societies have been registered and they are as yet not working. The project nevertheless remains operational.

#### Agro-Processing Co-operatives

The Ministry of Co-operative Development has also taken an interest in promoting Agro-based Co-operative Industries again with the assistance of the Nordic Project for Co-operative Assistance (Agro Based Co-operative Industries. A survey on Potentials for Expansion and Development, Development and Planning Division, Ministry of Co-operative Development, January 1978). The purpose is once more to bring benefits to the countryside, in this case by the vertical

integration of producer marketing co-operatives into agro processing. Seven main areas of potential were initially identified in the above report

- a) the processing of maize
- b) cotton processing
- c) processing of oil seeds and copra
- d) Forest industries
- e) Fish processing
- f) sugar processing, and
- g) Horticultural processing

The conclusions in relation to each varied. In respect to maize, because of excess milling capacity (around 50% in 1978) the conclusion was that it was only in the longer time-perspective, 8-10 years, that co-operatives should consider entering this area. At least 23% of cotton clothing demand in Kenya is met by external sources, it was suggested therefore that cotton clothing co-operatives be promoted. Oil seed processing did not seem promising because of excess capacity. Forest industries on the other hand had some potential both in saw-milling and secondary wood manufacture. Likewise, sugar processing and horticultural processing, though fish processing seemed less promising.

As far as one can ascertain little has been achieved in the direction of agro-based co-operative industrialisation though it is identified as an area of future growth and one where potential technical and financial assistance would be welcome.

#### Factors Hindering the Development of Industrial Producer Co-operatives

During my interviews a number of factors hindering the development of industrial co-operatives were repeatedly voiced.

- (a) Not surprisingly the lack of managerial skills of members was mentioned most frequently and also appears in the various reports referred to. Particular mention is made of the lack of basic accounting, quality and stock control. The Kenya Co-operative College provides courses in these matters but it is rare that members of primary co-operatives get an opportunity to attend the College. As I have mentioned lack of production skills is perhaps not a problem as long as co-operatives stick to relatively simple technologies, because of the success of the village polytechnic and Youth Development Programmes.
- (b) In the early years of independence the (agricultural) co-operative movement was strongly tainted by corruption. This had the effect of increasing Government supervision of co-operatives and the Co-operative Societies Act 1972 very much reveals this. It is now widely held that the level of supervision hampers the effective running of co-operatives in all sectors and the feeling is that the statutes will have to be relaxed to give primary co-operatives more flexibility in investment patterns etc.
- (c) Industrial Co-operatives, often because they are short of ready cash, put themselves in the hands of unscrupulous middle-men for marketing purposes. Even fairly well organised secondary marketing co-operatives in the handi-crafts sector seem not to obviate this problem.

- (d) there is also evidence, again particularly in the handicraft co-operatives, that the co-operative machinery is circumscribed when it is to the advantage of members individually.
- (e) Many Co-operatives lack product designs and engineers which would enable them to keep abreast of the best competition in the market place. This particularly applies where the Co-operatives are attempting to sell on an international market (e.g. in Handicrafts).

#### Some Possible Avenues for Support by UNIDO and the Co-operative Movement

In the time available I found it impractical to make detailed assessments of the various projects mentioned to me. In particular the detail required in the standard UNIDO forms was just not forthcoming at short notice. I did, however, identify a number of possible projects which may bear further investigation. I present them in no particular order.

(a) Extension of the programme for small rural multi-purpose workshops This was suggested to me by a number of people but it would perhaps be prudent to await the results of the present pilot study in Kisii and Kakamega before thinking of further support.

(b) Linking Building and Construction Co-operatives with Housing Co-operatives There are a number of successful housing co-operatives in Kenya. They have, however, not sought to go into building and construction themselves. A feasibility project would be welcome here.

(c) Development of Agro-Based Co-operative Industries As the report has shown the Ministry has conducted fairly detailed pre-feasibility studies in a number of areas. Little has come of these because of lack of finance and a wariness about whether the requisite technology is fully understood in the Ministry. My judgement is that there is ample scope here for further investigation.

(d) Purchase of Transport to serve the Handicrafts Co-operatives At the moment there is a large overhead attributable to the rental for transport of the raw materials (particularly wood) to the co-operatives. It is estimated that this could be significantly reduced if the co-operatives owned their own vehicle. The volume of work would dictate that such a vehicle would have to be jointly owned by a series of co-operatives - this may generate problems!

(e) The Training of Ministry and Apex level Personnel in Practical Business Although a number of Ministry employees possess degrees of one sort or another they have little experience of the actual practice of running business enterprises. Ministry Personnel could benefit from periods of secondment into appropriate efficient businesses in the developed world.

(f) Cotton Goods Co-operatives It is estimated that there is ample scope for the establishment of Co-operatives making simple cotton goods like shirts and dresses; they could use local cotton.

(g) Office and Domestic Furniture Co-operatives Again it is estimated that a demand exists, the skills and raw materials are available.

(h) Milk Producing Co-operatives At present the pasteurising and packing of milk is handled by a highly centralised monopoly. A feasibility study of a decentralised competitive co-operative system using packaging produced from local resources would be welcome.

(i) A Mobile Factory producing Concrete Bricks for Building One of these had been seen in Sweden and it was thought that such a factory could well be effective in Kenya moving from site to site.

(j) A National Prototype Centre for Handicrafts Such a centre would promote research into new products and processes particularly in relation to the international market and train members from the primary co-operatives.

The Industrial Co-operative Movement in Kenya in relation to the ICA Research Project

In many ways the experiences encountered by the Kenyans in establishing industrial Co-operatives support the findings of the ICA research project - particularly the problem of deficient managerial expertise. In the past Co-operatives have, in Kenya, benefited from concessionary finances from state and quasi-state sources. The ICA research suggests without a reasonable quality of managerial expertise in the primary co-operatives, there is a route for disaster. But as the quotation from the National Plan in the opening paragraphs of this paper show, the current policy is to support co-operatives only upon strongly commercial lines and to allow them to compete with private commercial enterprises. However, despite the attraction of this policy it seems inevitable that given the endemic shortage of managerial expertise the most capable will be attracted to private companies thus putting co-operatives at a comparative disadvantage. One of the recommendations of the ICA research was the creation of a Co-operative sector (exhausting the marketable potential in one product) allowing co-operative to compete with co-operative. I found some support for this idea in the Kenya National Federation of Co-operatives. It is clearly something which will have to be discussed in Arusha.

5.1.82  
PA/ME

CONFERENCE ON ECONOMIC AND SOCIAL POTENTIAL OF INDUSTRIAL CO-OPERATIVES

IN DEVELOPING COUNTRIES

BACKGROUND PAPER: INDUSTRIAL COOPERATIVES IN NIGERIA

PETER ABELL



C O N T E N T S

The Co-operative Movement in Nigeria

Possible Projects for Industrial Producer Co-operation

The Nigerian Experiences in relation to the Research into  
Social and Economic Potential of small scale  
Producer Co-operatives

### The Co-operative Movement in Nigeria

The first Co-operative Law in Nigeria was enacted in 1935 under the Colonial Government and though there have been revisions this law still effectively is in operation. There is, however, some considerable feeling amongst co-operatives in Nigeria that many of its clauses are not appropriate to modern conditions and even detrimental to producer co-operatives but there are at present new draft Statutes under consideration which it is hoped will rectify the situation and pass into law presently. These statutes if endorsed by the Federal Government will amongst other things prove more helpful to the establishment of producer co-operatives in both the agricultural and manufacturing sectors. I was unable in the time available to obtain the draft statutes and so cannot comment upon this latter claim.

The legal encouragement and promotion of co-operatives first became explicitly embodied in a National Development plan in the period 1975-80; "Although co-operatives as a form of voluntary self-help organisation have been known in many parts of this country for several decades now, co-operative programmes in their own right have never featured in any National Development Plan. This reflects both the slow progress of the movement in Nigeria and a lack of active government interest. Yet Co-operatives are potentially an important instrument of social transformation, especially in the rural areas" (Third National Development Plan, 1975-80, Vol. 1, Chapter 26, Co-operatives and Community Development).

This plan recognised the existence in 1975 of four broad types of co-operatives in Nigeria:- agricultural co-operatives, consumer co-operatives, co-operatives of craftsmen and artisans and co-operatives of thrift and Loan Societies. It goes on to note that artisans and craftsmen's co-operatives are not widespread despite the abundance of self-employed artisans in trades such as tailoring, woodworking, and blacksmithy. However, many industrial craftsmen were, it appears, ripe for the co-operatisation; in particular the purchasing of their material inputs as their lack of resources often meant that they 'could not operate effectively'. The report indicates that there were, in 1975, 28 craftsmen's co-operatives (possibly purchasing co-operatives) in Kano State but provides no overall figures for Nigeria as a whole. From the point of view of the present conference it is notable that no mention is made of producer co-operatives per se though it does mention that there is a considerable and as yet unexploited potential for co-operation in the artisan sector.

Despite its advocacy of co-operation the 1975-80 National Plan noted that the Nigerian Co-operative movement had recorded very limited success. This is attributed to three factors:

- a low level of understanding by the rank and file of co-operative principles and the 'virtual non-existence' of co-operative training and education.
  - a lack of the necessary support staff to manage co-operatives.
- Although many State Governments had set up Co-operative departments to give technical assistance to co-operatives they were, with a few exceptions, not themselves staffed by men of 'sufficient experience or ability to make a decisive impact'. There were in 1975 training schools in Ibadan, Kadumar and Enugu but they were not sufficient to meet the training needs of the whole country.

---

\* should be read in conjunction with covering notes

- the small size of co-operatives in Nigeria. the average size was 60 members per primary society. It should be borne in mind here also that we are dealing essentially with buying and marketing co-operatives in the agricultural sector.

With these problems in mind the Government set the objectives, during the period of the plan, 'to foster the growth of co-operatives more consciously as instruments for achieving increased agricultural productivity and rural transformation'. In particular the government was to 'improve training facilities' and 'increase credit facilities'. Furthermore, for the first time the Federal Government (in addition to State Governments) was to 'participate in the co-ordination of co-operative matters on a nationwide basis'. There was, however, no explicit mention of industrial producer co-operatives.

The National Plan also sought to bring community development activities within the framework of the plan and associated these developments with the promotion of co-operatives. It was planned to spend N 193.3 million on both sorts of development within the planning period of which N 177.1 million would come from the State Government and N 16.18 million from the Federal Government. The expenditures were to be distributed as follows: 75-76: 20 million, 76-77: 30.5 million, 77-78: 38 million, 78-79: 47.5 million and 79-80: 57 million.

However, as the Second Progress Report on the Third National Development Plan, 1975-80 demonstrates these expenditures were not fulfilled.

The Guidelines to the Fourth Development Plan, 1980-85 reviews the achievements of the 75-80 plan. Despite disappointments the co-operative system it urges has 'become firmly established'. Generally speaking there are three tiers in the system, primary societies at the village or town level, secondary societies (or Unions) at district or local Government level and State Apexes. Multiple purpose secondary co-operatives and Apexes seem to predominate over single-purpose arrangements. The latest figures I was given by the Ministry of Employment, Productivity and Labour are somewhat at variance with the figures presented in the Fourth Development Plan. I give then in brackets, the other figures deriving from the report:

Total number of primary co-operatives	11,264	(16,812)
Total membership	918,149	(1,633,217)
Secondary societies	over 200	(171)
Apexes	about 30	(36)
Total Share capital	-	(52 x 10 <sup>6</sup> )
Total Savings	-	(16 x 10 <sup>6</sup> )

Unfortunately the statistics I was provided with do not detail the number of producer co-operatives nor the number of industrial co-operatives, not even the artisan's co-operatives. In fact it appears that all the arts and crafts co-operatives have been promoted by state institutions rather than by the Federal administration which accounts for the lack of statistics at the Federal level. The estimate I was given is that there are approximately one hundred artisans primary co-operatives few of which are established as producer co-operatives. There appear to be few or no producer co-operatives in other industrial sectors.

It is clear then that the efforts exerted since 1975 to promote co-operatives have largely gone in directions other than in establishing industrial producer co-operatives or even agricultural producer co-operatives. The emphasis has been upon Buying Marketing and Credit Co-operatives. Nevertheless a number of developments may prove helpful in the future.

Several Federal Apexes have been established, notably:

- The Co-operative Federation of Nigeria Limited (CFN)
- The Nigerian National Co-operative Wholesale Association Limited (NNCWA)
- The National Co-operative Insurance Society Limited (NCIS)
- The National Association of the Co-operative Credit Union of Nigeria Limited (NACCUN)

The CFN represents the interests of co-operative societies irrespective of their spheres of operation. NNCWA is a national apex organised on functional lines, it purchases in bulk for distribution through co-operatives. The NCIS will provide insurance cover for any type of co-operative venture. NACCUN oversees the policy of the various co-operative thrift and credit societies. Each of these national apexes could in their various ways cater for the interests of producer co-operatives.

The Guidelines for the Fourth National Development Plan 1980-85 calls for the establishment of more primary co-operative societies especially consumer and producer primary co-operative societies. Education will be redirected to training 'members of the co-operative movement' rather than officials as has hitherto been the case. Members will be 'trained in modern management techniques and financial control'. The existing co-operative banks will be expected to 'increase substantially their financial assistance to the co-operative movement. If necessary existing regulations will be reviewed to make this possible'. A system of minimising direct Governmental control of co-operative society will also be designed.

The plan envisages an expenditure of N 67.8 million by 1985; 20.5 million will be on a National Agricultural Management Development Centre, 18 million on the three existing Co-operative Colleges, 16.8 million on State Colleges and 12.3 million on 32 feed mills. There is clearly no room here for additional direct financial support for co-operatives of any sort. The reasoning appears to be that funds should be forthcoming from the Co-operative Banks.

In conclusion then it appears that the Co-operative movement is now well established in Nigeria though it is still, in terms of national impact, of relatively small dimensions. There has, however, been little emphasis on producer co-operatives in either the agricultural or industrial sector. The Guidelines for the fourth National Plan mentions producer co-operatives explicitly for the first time which may bode well for the future.

#### Possible Projects for Industrial Producer Co-operation

I had no time nor the necessary background to discuss these matters in detail. However, areas where opportunities appear to exist to establish producer co-operatives are:

- (a) Cocoa processing
- (b) Processing of Palm Oil
- (c) Manufacture of Tomatoe Paste
- (d) Canning of Fish
- (e) Processing of Ground-nuts

The Nigerian Experience in Relation to the Research into the Social and Economic Potential of Small Scale Producer Co-operatives

Since there has been no serious attempt to present to promote producer co-operatives there is little we can say about the situation in Nigeria. However, with the emphasis in the next National Plan on

- 1) training in management and financial skills
- 2) the provision of credit
- 3) the reduction of direct governmental interference in the day to day running of co-operatives

then these ideas are perfectly in accord with the findings of the ICA research project. The things lacking are perhaps an emphasis on supervised credit and personal financial investment in co-operatives. Nevertheless if industrial and agricultural producer co-operatives are (as indicated) to be encouraged in the future there must be some grounds for optimism.

5.1.82  
PA/ME

COUNTRY REPORTS: NIGERIA BY F.K. ADEYEFA (PARTICIPANT)

The Chairman  
Distinguished Participants  
Fellow Cooperators

On behalf of the Government and the people of the Federal Republic of Nigeria, I express sincere gratitude to the sponsors and organisers of this important conference for the opportunity to participate in it.

I need to indicate at this juncture that the bonafide representative of Nigeria to this Conference, Mr. T.E. Adeyeri, has not been able to come for some reasons. The confirmation by the Nigerian Office of UNDP for my participation at this Conference was relayed to me about 48 hours prior to leaving Nigeria. For this reason, it was not possible to bring along relevant data that could have been very useful to this Conference. I will however make available to the participants such information that are within my competence to provide.

Cooperative Movement in Nigeria

The history of the establishment of Cooperative societies in Nigeria could be traced back to as early as 1922 when cocoa farmers were organized along cooperative lines by the Agricultural Department. Since that time, several modifications and tremendous growth have been experienced, including the enactment of the cooperative ordinance in 1935. The firm establishment of cooperation in the various facets of life in Nigeria today is a result of the gradual developing of the 1922 attempt.

No doubt, and as Professor Abell pointed out in his paper on Nigeria for this Conference, the Nigerian Cooperative Movement has faced a number of problems. Efforts are being intensified to improve the situation and ensure an effective and efficient cooperative system.

Comments on the Paper on Nigeria by Professor Peter Abell

Professor Abell has written considerable facts on the general status of the Cooperative Movement in Nigeria, and I agree with most of the contents in the report. However, it is clear that Professor Abell did not present sufficient data on the relevant subject of industrial cooperatives in Nigeria. It is clear the job was not fairly done and does not reflect the existing situation.

Given the time and the statistics at his disposal, Professor Abell could probably not have written anything longer or more informative on the subject. One important achievement of the report is that it has been able to focus attention on the need to improve the industrial cooperative sector. It has therefore created the necessary awareness and could provide a starting point for the involvement of the UNIDO and other relevant international organisations in the development of industrial cooperatives in Nigeria.

The present status of industrial producer cooperatives in Nigeria

There are very few industrial cooperatives in the country, most of which are agro-based. A general observation backed by studies is that the industrial producer cooperatives constitute the least developed sector of the Nigerian Cooperative Movement. Some earlier investigations on Cooperative Membership Drive show that the main reasons for slow growth of the industrial cooperative enterprises include the unwillingness of the craftsmen to engage in joint enterprises as well as the small and dispersed nature of the unit of production.

Although a large number of industrial ventures can be found in the various parts of the country (there are not less than 2,000 industries in Nigeria), the operators/owners of such ventures are not in most cases registered as cooperators. One plausible reason for this is the lack of emphasis on industrial and production cooperatives in the past. This might be partly due to policy orientation and/or legislative inadequacies.

The major problems hampering the progress of the existing agro-industrial system have been identified as including the following :

- (a) inadequacy or lack of infrastructures
- (b) scarcity of willing and competent technical partners
- (c) the urban location of most agro-industries with the effects of high costs and shortage of raw materials
- (d) the unattractive nature of manufacturing industries as commercial ventures to local businessmen and foreign investors
- (e) the high share of foreign capital
- (f) administrative bottlenecks and restrictive industrial policy.

Institutional arrangements for the promotion and development of industrial producer cooperatives in Nigeria

At the national level, the institutions that could effectively promote the development of industrial cooperatives in Nigeria include the following :

- (i) Federal Ministry of Employment, Labour and Productivity;
- (ii) Federal Ministry of Agriculture
- (iii) Federal Ministry of Industries
- (iv) Federal Ministry of National Planning
- (v) Federal Institute of Industrial Research.

The counterpart state ministries to (i) - (iv) above can also promote the development of industrial cooperatives on a state by state basis.

Possible Areas of Assistance

In the promotion and development of industrial cooperatives in Nigeria, the following are areas in which UNIDO and any other relevant international organisation could be of assistance :

- (i) Through research studies (including surveys and feasibility) as those carried out in India, Indonesia, Peru and Senegal by the ICA Research Team;
- (ii) Assistance in the provision of requisite training on industrial producer cooperatives;
- (iii) Direct technical and other assistance to the cooperative movement through such non-Governmental Organizations as the COPAC.
- (iv) Through the education and training of policy-makers, movement officials and members about the potentials of industrial cooperatives, e.g. by fellowships, participation in relevant international conferences, seminar, etc.

CONCLUSION

There is a great potential for the development of industrial producer cooperatives in Nigeria .

Appeal is hereby made to UNIDO, ICA and other such organizations to organize such international conferences, seminars, etc., for the benefit of the West African region.

\*\*\*\*\*

Arusha International Conference Centre  
P. O. Box  
ARUSHA, Tanzania  
16th February 1982



INTERNATIONAL CONFERENCE ON INDUSTRIAL COOPERATIVES  
IN DEVELOPING COUNTRIES: ARUSHA, TANZANIA

Plenary discussion on the promotion of Industrial  
Cooperative Projects identified in the participating countries

Contribution on the identified projects for Industrial Cooperatives  
in Nigeria by F.K.A. Adeyefa, Participant from Nigeria

I have the following comments to make on the projects identified  
for industrial cooperatives in Nigeria :

1. The projects identified as possible areas for cooperative development in Nigeria as enumerated in Prof. Abell's report and in the extracts for all participating countries are, for the meantime, to be regarded as tentative. The proposals should be so regarded for the following reasons :
  - (a) No supporting empirical data on the proposals are available to the conference;
  - (b) the list is by no means exhaustive of the possible areas for industrial cooperative development in Nigeria, and
  - (c) <sup>it</sup> may reflect the priority of the Nigerian Federal Government.
2. As earlier indicated in my presentation on Tuesday (16/2/82) the areas of assistance will essentially consist of promotional measures like technical assistance for detailed survey, feasibility (research) studies, industrial cooperative education and training. There is also the need for UNIDO to collaborate with Nigeria in critically assessing all or a selected number of the existing industrial cooperatives in order to determine possible area(s) of assistance. In this regard, it may be necessary for Prof. Abell and/or Dr. Mahoney (ICA Research Study Team) to visit Nigeria at the instance of UNIDO to complete the unfinished job.
3. The Conference secretariat is hereby requested to highlight the comments/contributions made with respect to the Nigerian situation, including my request for the involvement of UNIDO in the promotion and development of industrial producer cooperatives in Nigeria. UNIDO will, therefore, be able to have (through the UNDP Office in Nigeria) the reaction of the Federal Government of Nigeria on the issues raised with a view to assisting further in the processing of the demand for UNIDO involvement made by the Nigerian representative at the Conference.

Proposals for the Development of Industrial  
Co-operatives in Botswana

Nicholas Mahoney  
for the  
Department of Co-operative Development  
and the Botswana Co-operative Union

## CONTENTS

### Overview

- 1 Introduction : The Country, its Resources, Population and Communications
- 2 The Economy
  - 2.1 An Overview of the Economy
  - 2.2 Manufacturing and Construction Industries
  - 2.3 Employment and the Labourforce
- 3 The Co-operative Movement in Botswana
  - 3.1 The Role of the Co-operative Movement in Botswana's Development
  - 3.2 The Development of the Co-operative Movement
  - 3.3 Lentse Le Oodi Weavers' Co-operative
- 4 National Policy Regarding Industrial and Co-operative Development
  - 4.1 Industrial Development Policies
  - 4.2 Practical Support for Industrial Development
  - 4.3 The Department of Co-operative Development
  - 4.4 Draft Development Plan 1982-87
- 5 The Potential for the Development of Industrial Co-operatives in Botswana

Appendix : List of Works Consulted

## OVERVIEW

Industrial co-operatives have not developed spontaneously or in significant numbers in Botswana although interest in co-operative forms of industrial production is growing. Manufacturing industry itself is not at all highly developed in the country and it is concentrated in the towns. Because of this the Government has embarked on a programme of industrialisation in the rural areas where the vast majority of the country's population lives. Botswana's co-operative movement is however relatively well developed, particularly in the agricultural sector and is growing rapidly.

An industrial co-operative development programme could play a valuable role in present development plans as it could encourage the participation of Botswana's citizens in industrial development - particularly in the development of local services, use of local materials, and production for local markets - and ensure the widest possible distribution of ensuing benefits. Such a programme could also link planned rural industrial development with existing co-operative marketing infrastructure and develop industry at an intermediate level between more capital intensive, export orientated industry and the individual, small-scale entrepreneur.

## 1. INTRODUCTION : THE COUNTRY, ITS RESOURCES, POPULATION AND COMMUNICATIONS

Botswana is a landlocked country in the centre of the Southern African plateau with an area of some 582,000 square kilometres. Two-thirds of Botswana is covered with the thick sand layer of the Kalahari desert but the eastern region has a somewhat less harsh climate and more fertile soils and it is here that the bulk of the country's population is concentrated.

Botswana's economy is based upon agriculture but as arable land is scarce - less than 5% of the total land area - and rainfall is scant and capricious, arable agriculture is a precarious undertaking. Much more of Botswana's land is suited to extensive beef production and this is reflected in the fact that cattle outnumber humans several times over.

Botswana has important mineral deposits; there is copper-nickel with one mine in operation, coal again with one mine, diamond pipes of which two are in production and a third soon to come on stream, as well as numerous other mineral deposits which have not been exploited.

The country's estimated de facto population in 1981 is 850,000 and it is clearly very small in relation to the size of the country. Population is growing at an annual rate of about 3% and there is a high proportion of children and young people even though life expectancy is relatively low due largely to high infant mortality. Labour migration to South Africa has long been very important and a large number of citizens work or have worked abroad although recently opportunities for migrant work have been declining. Because labour migrants tend to be young men, there is a preponderance of women among young adults in the overall population.

The population is highly concentrated in the east of the country where it is predominantly rural even though there are many large traditional villages which are important rural centres. Within the rural areas there is much seasonal movement between villages, arable lands and grazing lands areas. There is also significant rural-urban migration and the urban population almost doubled between 1971 and 1978 to 120,000.

There is a single track railway line through the east of the country which links Botswana with the Zimbabwean and South African systems and therefore with seaports. The major north-south road which follows the rail has now been hard surfaced as have its links to major district centres. An all weather road now links Botswana with Zambia via the Kazangula ferry service. Most of the secondary and rural roads are passable only to more rugged vehicles.

## 2 THE ECONOMY

### 2.1 An Overview of the Economy

Between 1967/68 and 1977/78, Botswana's economy grew at an annual average rate of over 11% per annum in real terms. The most important sectors at the beginning of the decade were agriculture which contributed 42% GDP, central government 18%, and trade hotels and restaurants 11%. By the end, agriculture's share had fallen to 20% while the most rapidly growing sectors were mining which had risen to 15%, followed by electricity and water up to 3%, trade hotels and restaurants up to 21% and services other than central government up to 4%. Central government's share had fallen slightly to 16%. Manufacturing industry grew over the decade but even at the end its contribution was less than 7% of total GDP

The cattle industry makes the largest contribution to agricultural output accounting for 75% of agricultural value added. The cattle industry suffers in the frequent droughts, but arable farming suffers most from inadequate rainfall.

The growth in the mineral sector is the most important factor in the increase in Botswana's GDP in recent years. Apart from the 70 fold increase in its own contribution, it has been indirectly responsible for much of the growth in government services, in construction, and in other sectors stimulated by its expansion.

Botswana imports a wide range of goods, most important of which are food, beverages and tobacco, machinery and electrical equipment, vehicles and transport equipment, and metal and metal products. Its principal exports are diamonds, copper-nickel matte, meat and meat products, and textiles. There is regularly a sizeable deficit on the balance of trade.

Government plays a significant role in the economy. Its indirect role includes the provision of basic infrastructure, education for the labourforce, the setting of the legal, fiscal and monetary framework, and securing favourable international economic arrangements. Its direct role is indicated by the fact that it is the largest single employer, that government and para-statal corporations account for 25% of GDP, and that it has participated in all major economic ventures.

### 2.2 Manufacturing and Construction Industries

Manufacturing industry accounts for less than 7% of GDP and is moreover dominated by one enterprise, the government owned Botswana Meat Commission, which on average accounts for 50% of the total manufacturing sector output. It is the biggest of the three major manufacturing employers in the country. The sector is small, largely foreign owned, almost wholly urban, and reliant on expatriate skilled and managerial workers. Growth in the sector over the last decade has been accompanied by a significant increase in the number of enterprises and a growing diversity of products; 53 of the 88 firms

licenced as of 1979 had not commenced production before 1974.

The licenced manufacturing sector which includes all firms with 10 or more employees comprises 88 firms. Of these only 8 are solely Botswana owned, 23 are of mixed Botswana and foreign ownership, so that 65% are exclusively foreign owned. In terms of the number of enterprises, the largest sub-sector is metal products (22%) followed by clothing and textiles (15%) and food and beverages (14%). As mentioned, however, half of the sector's output comes from the Botswana Meat Commission. Manufacturing industry is almost entirely urban based with less than 5% of all enterprises being located in rural areas. Total employment in the sector is only 5,088 with 1,412 employees being employed by the Meat Commission. Expatriates account for 10% of all employment. The other sub-sectors which make substantial contributions to employment are metal products and clothing and textiles. Average employment in a manufacturing enterprise is 58 but excluding the three biggest firms which together account for 40% of all employment the average number of employees per enterprise is only 36.

In addition to the licenced manufacturing sector there are a number of manufacturing enterprises sponsored by the Brigades - training schemes or development trusts. Sixteen such establishments were in existence in 1978, 14 in the rural areas, and together they employed 770 workers. Their activities included textiles, building materials, furniture and food processing.

There are other enterprises - most of them small-scale with less than 10 employees - which have been sponsored by the Botswana Enterprise Development Unit. By 1979, there were 78 such enterprises engaged in construction, metalwork, clothing, leatherwork, and other trades. Total employment was 982 - almost half of which was in the construction industry. The Unit has developed urban industrial estates and 72% of the sponsored firms are located on these.

There is also a not insignificant informal manufacturing sector in Botswana, estimated employment being equivalent to 10% of total formal sector employment. Activities include small scale manufacture and repair, beer brewing, handicrafts, and construction.

The construction industry makes approximately the same contribution to GDP as does manufacturing industry although it employs more people. Its fortunes have fluctuated from year to year and along with them the numbers of people employed. There has been significant growth in Botswana's indigenous construction capacity and there are about 135 contractors in the country including ex-members of enterprises sponsored by the Botswana Enterprise Development Unit and of the building Brigades.

There are very real constraints upon the development of commerce and industry in Botswana including

- a small internal market and a population with a low average income;

- fragmentation of the internal market by poor rural communications and low population density;
- the landlocked position of the country and the proximity of the more developed economies of Zimbabwe and South Africa;
- the shortage of skilled labour and managerial staff;
- the lack of infrastructure;
- the lack of a local capital market; and
- the lack of a strong raw materials base.

The Government has acted to improve communications, expand education and training, and to develop new channels of finance but favourable conditions for the substantial development of manufacturing industry do not as yet exist.

### 2.3 Employment and the Labourforce

Botswana has an estimated labourforce of 428,000. About 60% of the labourforce is engaged in subsistence agriculture and other unwaged rural activities or in activities in the informal urban sector. Formal sector employment accounts for about 17% of the labourforce, employment in South Africa for a further 6%, while the remainder are assumed to be dependents of formal sector employees and not looking for work.

Formal wage employment has grown at an average annual rate of 9% between 1972 and 1978, from 41,000 to 69,000. Central government accounts for 38% of the total, trade hotels and restaurants for 16%, and construction for 12%. Mining, despite its 15% contribution to GDP, accounts for only 8% of employment, while manufacturing industry employs 7% in proportion to its contribution to GDP.

The labourforce characteristically includes an abundance of unskilled labour and a paucity of trained workers. Manufacturing industry in particular is dominated by expatriate staff in technical and managerial positions.

At the present, the majority of the labourforce are not in jobs which provide a satisfactory income. With population growth it is predicted that during the period of the Fifth National Development Plan (1979-85) the labourforce will have grown by 87,000 and the probable shortage of employment will be accentuated by the decline in employment in South Africa. Despite an increase in real terms over recent years, GDP per capita in Botswana was P420 in 1973 or only P340 if adjustments are made to allow for the benefits which flow to non-Batswana.



### 3 THE CO-OPERATIVE MOVEMENT IN BOTSWANA

#### 3.1 The Role of the Co-operative Movement in Botswana's Development

Co-operatives in Botswana have been allotted a major role to play in the economic and social development of the country. Specifically, they are expected to

- raise the standards of living of the poorer sections of the rural and urban populations;
- supply the inputs required to produce sufficient food for an increasing population;
- provide commodities for export and import substitution;
- facilitate education, self-reliance and the acquisition of new skills; and
- provide the basis for new Botswana owned industries.

The development of the movement to date has made it one of the biggest Botswana owned undertakings in the country and it could certainly be described as the biggest on-the-job training scheme for Botswana.

#### 3.2 The Development of the Co-operative Movement

The first co-operative society was established in 1964 and registered under the Co-operative Societies Act of 1962. The movement has grown to the point at which it is one of the largest business concerns in Botswana, entirely owned and managed by Botswana, with an annual turnover of some P20 million expected in 1981. Apart from the economic services it provides to its members - members who represent 30% of all households in the country - it provides direct employment to 800 people.

In the last decade the number of primary co-operatives has increased from about 75 to 133, and there are two secondary co-operatives in addition - the Botswana Co-operative Union and the Botswana Co-operative Bank. In 1971, 41% of all co-operatives were farmers' marketing and multipurpose, 37% were thrift and loan, 16% were consumer, and 6% secondaries and co-operatives engaged in miscellaneous activities. Farmers' marketing and multipurpose have increased more rapidly than the other kinds for in 1979 they made up 52% of the total, thrift and loan declined proportionately to 24%, the others having maintained almost the same proportion as before. In 1971 about half the total individual membership of the movement belonged to consumer co-operatives, members of farmers' marketing and multipurpose came next and of thrift and loan last. By 1979, the membership of farmers' marketing and multipurpose had risen to the point at which it equalled the membership of consumer co-operatives, the membership of thrift and loan having remained virtually unchanged over the

period. Employment in co-operatives had risen from just over 100 to 800 in the eight years. Capital employed in the movement rose from P1.5 million to P5.5 million there having been significant increases in reserves and a very substantial rise in borrowing.

#### Farmers' Marketing and Multipurpose Co-operatives

This sector has expanded rapidly in recent years, not only in the number of co-operatives but also in the range of services supplied to members. Most of the farmers' agricultural and multipurpose co-operatives began by selling members' cattle and livestock to the Botswana Meat Commission to ensure the farmers a fair price for their animals and a share of the Commission's annual bonus payment - things which were not guaranteed if they took the only alternative and sold cattle to a private trader.

The range of activities increased over the years to include livestock inputs distribution, building materials supply, crop marketing, the provision of consumer goods, and agricultural credit until many of the co-operatives became fully multipurpose. Total turnover in 1979 amounted to over P7 million and an overall net surplus of 2% was recorded. Even then though cattle marketed through the co-operatives amounted to only 20% of the total throughput of the Botswana Meat Commission.

The multipurpose co-operatives - or 'full service rural co-operatives' as they are known - aim to distribute basic food stuffs evenly over the country, to provide a supply channel for agricultural and livestock requirements to improve production, to encourage savings and financial self-reliance by taking deposits, to advance credit to farmers to enable them to improve their production methods, and to supply building materials for housing.

#### Consumer Co-operatives

The first urban consumer co-operative was established in the capital city of Gaborone in 1966 but there are now seven consumer co-operatives in major urban centres as well as 26 in rural areas. With a membership of 21,500 and 310 staff, their combined turnover was P9.5 million, slightly more than half in the urban shops. Recently, the consumer co-operatives have been facing hardening competition from full-service supermarkets and shopping centres, largely owned by foreign chains.

#### Thrift and Loan Co-operatives

These co-operatives exist to encourage savings, provide depositing and withdrawing facilities for members' savings, and to grant loans to members. Thirty-one co-operatives have over 3,000 members, combined savings of P70,000 and reserves of P5,300, and outstanding loans of P34,000. Their surplus funds are deposited with the Botswana Co-operative Bank as the apex organisation, funds which are made available to other co-operatives for developmental projects. There is a strong

interest in the formation of institutional thrift and loan co-operatives within workplaces and organisations, shown primarily among the trade unions.

#### Botswana Co-operative Union

The Botswana Co-operative Union (BCU) is the apex organisation and wholesale supplier to the entire co-operative movement in Botswana. It has been growing rapidly in recent years and sales to the value of P5.5 million in 1979 rose to almost P7 million in 1980. Its activities cover the distribution of consumer goods, agricultural requirements and building materials, including material provision for the Government's Arable Lands Development Programme; the marketing of cattle on behalf of its member co-operatives; the provision of insurance services; the provision of a retail extension and advice service; the provision of management assistance and relief; and, in collaboration with the Department of Co-operatives, education and publicity for the movement. In 1980, the BCU received a government grant of P250,000 and issued shares to member co-operatives on a 1 : 1 basis for the same amount.

#### Botswana Co-operative Bank

The Botswana Co-operative Bank is an independent financial institution and is at present developing a fully fledged banking service. Its present functions include accepting deposits from co-operatives and other organisations and maintaining credit accounts for member co-operatives; channeling government and donor agency grants to co-operatives for development projects; granting loans to co-operatives; administering the cattle advance and other governmental agricultural credit and subsidy schemes.

#### Miscellaneous Co-operatives

There are six other co-operatives in Botswana which are engaged in other, specialised, activities. There is one fisheries co-operative which also has a small retail store, some horticultural co-operatives with estate production, a dairy co-operative, and a weavers' co-operative - Botswana's only industrial productive co-operative venture.

#### 3.3 Lentswe Le Oodi Weavers' Co-operative

Oodi Weavers' is Botswana's only fully fledged producers' co-operative. It was registered as such in 1978 but had been operating from 1973 as a training scheme registered as a private company. The scheme was sponsored with Swedish assistance in the form of loans, grants, and technical support, and undertook training in spinning, various forms of weaving, in book keeping and in basic business practice.

The co-operative operates from a medium sized village situated about 15-20 kms. from the capital city of Gaborone. It now has its own factory building, sales showroom, and 16 broad looms as well as a dozen others for tapestry work. It manufactures bedspreads, carpets, tapestries, shoulder bags and

other items from wool which it spins and dyes itself. Technology employed is labour intensive.

When first constituted as a co-operative, Oodi Weavers had 50 working members, 39 women and 11 men. At the end of 1981, membership had fallen to 43, disproportionately more men having left than women. The only specialised positions in the co-operative are those of the book keeper, the sales person and the three spinners. Management is undertaken by the chairperson and her elected committee. The co-operative generally pays its members a fixed monthly salary of P65, irrespective of the work they have done - spinning, weaving or tapestry work, or the number of days they have worked. At times of peak labour demand in the agricultural cycle, co-operative production drops off as members attend to their fields. At times, the co-operative has also operated a monthly productivity bonus system under which additional payments are made for production in excess of a certain quota. In late 1981, this system had been dropped as the financial position of the co-operative did not permit it.

The co-operative's products are sold to tourists and others who visit the village showrooms while there have been intermittent export orders to North America, Europe and South Africa. The co-operative does not pursue an active marketing policy, nor are any of the members well equipped at present to undertake this task. There does not seem to be significant demand within Botswana for the products, although as they are hand crafted and of a good quality, a potential local market might exist with hotels and government and commercial offices. The products are not cheap however, particularly for the local market where cheaper mass produced blankets are available; a tapestry retails at P200 per square metre and double bedspreads at P50. The prices obviously reflect the labour intensive nature of production.

In 1978, the year in which Swedish assistance was withdrawn, sales amounted to P120,000; in 1979 they fell dramatically to P55,500; but in 1980 they rose to P87,000. This amount represented sales of 225 square metres of tapestry and 783 woven double bedspreads or their equivalent in other products. Materials and overheads amounted to approximately P29,000, monthly salaries to P42,000, leaving an annual surplus of over P16,000. About half of this was distributed as a bonus to members and the rest was capitalised. Average annual earnings in the co-operative were therefore approximately P83 per month. The overall financial position of the co-operative was strong with assets to a value of P75,000+, no significant liabilities to third parties, although with member share capital of only P15,000.

Production was said to be below capacity and could easily have been expanded as it had been when large orders had to be met in short periods.

The co-operative was almost entirely self-managing, receiving only limited support from the Department of Co-operatives. The level of member participation was very high : in 1980 there had been 17 committee meetings with an average attendance

of five out of seven, and 17 general meetings with an average attendance of 48 out of 50.

If Oodi Weavers could be helped to develop its marketing further - and this was what the members said they wanted - there is no doubt that the earnings of existing members could be increased or the benefits of working in the co-operative extended to new members. Due to the overall management control exercised by the Swedish advisors in the early years, the co-operative has a very sound capital base. Financial management though is not very strong and existing capital is probably significantly underutilised.

#### 4 NATIONAL POLICY REGARDING INDUSTRIALISATION AND CO-OPERATIVE DEVELOPMENT

##### 4.1 Industrial Development Policies

Botswana's plans for industrial development have been set out in the Fifth National Development Plan. The policy is based on the four national principles of Democracy, Development, Self-Reliance and Unity. These are translated into planning objectives - rapid economic growth, social justice, economic independence and sustained development - which are to be pursued simultaneously and in a balanced manner. Since independence returns from capital intensive mining have been reinvested by the government to improve the standards of those who do not benefit directly. A limit to the expansion of government services has been recognised and it is now felt that there must be an increase in directly productive work and in particular a need to expand opportunities for work in rural areas. The emphases are therefore employment creation and rural development.

Industrial development objectives and strategy under the Plan are to

- increase the number of worthwhile employment opportunities for Botswana, particularly in the rural areas;
- increase Botswana's economic independence through Botswana involvement in trade and production and through diversifying sources of capital and skills;
- diversify the economy; and
- protect the interests of consumers and workers.

The government plans to create favourable conditions under which the private sector can contribute to Botswana's development and while it recognises the need for foreign investment it sees that the government may have a role to play in financially less attractive areas. The government also intends to identify those areas in which import substitution is possible and to explore opportunities for linkages : production for export with local materials, production of inputs for agriculture, and production linked to the requirements and

products of mining.

The government's rural development strategy is intended to increase the prosperity and reduce the vulnerability of the rural economy. It emphasises operating, maintaining and extending newly provided rural services; and intends to develop projects to support rural production and employment creation, all devised and executed with continual consultation with the rural population.

The rural industrialisation programme aims to create new enterprises which can stand up in local consumer markets rather than the relocation of existing enterprises. At the present time certain industries are considered to have a viable future including agro-based industries, construction and construction materials, repairs and services, farming inputs, processing of game herbs and animal products, and the production of simple consumer goods. In its programme, the government intends to give support to rural industries on the basis of social rather than narrowly commercial criteria, even though it is seeking their eventual commercial viability.

#### 4.2 Practical Support for Industrial Development

The government plans to use its influence during the Fifth Plan period to foster industrial development

- by creating a favourable environment through continued infrastructural development, negotiating international trade agreements, and by maintaining favourable fiscal and monetary policies;
- by giving positive encouragement and advice, commissioning industrial feasibility studies, providing general advice services, and giving assistance to independent bodies: and
- by more direct government involvement, particularly with the private sector.

It also intends to provide fiscal incentives to encourage the employment of unskilled labour and the adoption of employment intensive production methods.

The Ministry of Commerce and Industry has been identified as the main agent for implementing the policies and is charged with both regulatory and promotional functions. In the plan period it has been given extra resources so that it can concentrate upon its promotional activities rather than on regulation and control. At the same time, the activities of different ministries and departments involved in rural development are coordinated by the Rural Development Council which is chaired by the Vice President and serviced by the Rural Development Unit of the Ministry of Finance and Development Planning. A role has been agreed for local District councils working together with the Rural Industrial Officer Cadre under the Ministry of Commerce and Industry.

The government has established a Rural Industrial Officer

cadre, with officers now in place in half the large villages and district centres. Their task is to formulate and implement rural industry projects, to identify local entrepreneurs to manage them, and to act as secretaries to District Production and Development Committees. A project to provide entrepreneurs' training schemes at local levels has also been planned.

The Botswana Enterprise Development Unit (BEDU) has been in existence for many years and has provided intensive help to a number of relatively small new starts. The unit is however now moving away from concentration on urban industrial estates to work in the rural areas. The unit provides technical assistance and management training and it has offered financial help where appropriate in the past although this service is now being transferred.

Advice for small business is also available from the Ministry of Commerce and Industry's Business Advisory Service and from Partnership for Productivity.

The Botswana Development Corporation has had the role of encouraging private sector and foreign investment through joint ventures. It has concentrated on clearly viable commercial projects and therefore has had only very slight involvement in productive industry. It is said to be beginning to consider more risky ventures now.

The National Development Bank provides credit to agricultural and other projects on more favourable terms than the commercial banks. It works closely with BEDU and is taking over its financial role. It is soon to undergo some decentralisation and to have an industrial division. The bank offers short and medium term finance with no set upper or lower limits. Commercial banks tend not to finance smaller enterprises in Botswana.

Among the planned or current multilateral and bilateral projects for industrial development in Botswana are a wool spinning mill supported by NORAD and which is a potential industrial co-operative, technical assistance to BEDU via UNIDO, wool knitwear product development from the Polish Central Union of Work Co-operatives / UNIDO, and projects dealing with clay products, leather, clothing and footwear.

#### 4.3 The Department of Co-operative Development

Co-operative affairs in Botswana are administered by the Department of Co-operative Development (CODEC) located within the Ministry of Agriculture. It has sections dealing with consumer and with marketing and supply co-operatives, with thrift and loan co-operatives and with the Co-operative Bank, but does not have a section dealing with other specialised and industrial co-operatives. Its principal functions are to promote the co-operative movement, to administer the Co-operative Societies Act, to register and liquidate co-operatives, and to settle disputes. The Department is legally obliged to audit the accounts of all registered co-operatives although the secondary co-operatives are outgrowing its present

capacity. It is in charge of all member and employee training and ran 47 courses, seminars and workshops with 1,252 participants in 1980. It also runs training schemes for its own staff.

The Department coordinates development assistance inputs for the co-operative movement provided by government and other donors. It was decided that the major Arable Lands Development Programme at present under way should utilize existing institutions in its implementation and thus the Department and the co-operatives have been given a major role to play. CODEC is also involved in the development of the Vertical Banking System whereby the Botswana Co-operative Bank will operate through village co-operatives. A further duty of the department is to supervise and provide technical advice to all co-operative societies.

With the growth of the movement in recent years, CODEC's tasks have become increasingly complex and demands on its limited staff and resources have increased considerably. So great have the pressures become that the Department as it is presently constituted could not readily cope if it had to consider developing new services such as would be necessary for industrial co-operative development.

An important duty of the Department is to draft co-operative policy and together with the movement it has drafted a five year development plan for 1982-87.

#### 4.4 Draft Development Plan 1982-87

The draft development plan envisages a continued rapid growth in the number of services co-operatives provide to their members and in the volume of sales, and, because of this, a need for the secondary co-operatives to increase their investments and their service activities.

Co-operatives are expected to contribute to the Arable Lands Development Programme by making their distribution channels open to it. Practical steps have already been taken in this regard. The Botswana Co-operative Union's warehouses, transport fleet and the 63 farmers' marketing and multipurpose co-operatives have become the means to implement the project; the Union has been appointed the sole importer of agricultural implements and keeps a stock of the necessary spare parts. The credit and subsidy schemes involved are at present being channelled through the Co-operative Bank to individual co-operatives for on-lending to farmers. Through the European Development Fund assistance of P600,000 has been provided for marketing and supply infrastructure for the movement. The government has made P1.5 million available via the Co-operative Bank for eight co-operatives to construct shops and storage sheds, obtain transport, as well as for general working capital needs.

The movement plans to introduce Seasonal Credit Schemes for livestock and arable production and a Co-operative Credit



Scheme for agricultural implements. By the end of the plan period almost all farmers marketing and multipurpose co-operatives will have storage facilities; in addition to storing agricultural inputs, it has been proposed that such facilities are used to enable the co-operatives to accept increased responsibility for the marketing and storage of grain crops. Mobilization of members' savings through the co-operatives, leading to a higher level of self-financing, will also be actively encouraged during the period.

The co-operatives will be expected to continue and to increase substantially the promotion and marketing of locally produced food items and consumer goods. There is scope here for co-operative involvement in handicraft production and marketing, as such activities are important means, for women in particular, to earn a cash income in rural areas.

Recent proposals suggest that the Co-operative Union studies the feasibility of opening production and processing plants based on local produce and resources. A study of the feasibility of commercial sorghum milling which was the first area investigated was recently concluded.

Feasibility studies of other areas will be carried out in the future, particularly areas where production will be of goods already marketed or which could be marketed through the co-operatives. The following projects have been proposed:-

- sorghum mills for local sorghum meal production,
- pre-packing for maize meal, flour and beans,
- maize production, decentralised to some five places with 10 jobs each,
- peanut butter production,
- co-operative bakeries,
- milk powder packing, and
- cooking oil production.

The plan also foresees the registration of a poultry producers' co-operative, and further horticultural and dairy co-operatives. The development of these and other specialised co-operatives will depend however on the availability of technical support from other ministries and departments.

Multi- and bi-lateral assistance has been provided to the co-operative movement for several projects. Among them are the DANIDA/ILO "Strengthening the Co-operative Movement in Botswana" technical advisory project located within CODEC, a transport consultant with the Co-operative Union and an accountant/auditor with CODEC provided by the Volunteer Development Corps, and the European Development Fund "Services to Livestock Owners in Communal Areas" P600,000 project to provide marketing and supply infrastructure.

5 THE POTENTIAL FOR THE DEVELOPMENT OF INDUSTRIAL  
CO-OPERATIVES IN BOTSWANA

Industrial co-operation has not developed spontaneously in Botswana and, to a significant extent, its under development reflects the relative underdevelopment of the industrial and manufacturing sector in the country and the very low level of indigenous Botswana participation in the developments which have occurred. Nevertheless, industrial co-operatives could play a very important role in current national development plans. In particular industrial co-operatives could be utilized to encourage the participation of Botswana in manufacturing industry and, with their democratic and participatory structures, could provide essential on-the-job training. They would also ensure that the resources currently being made available for rural industrial development had the maximum effect and benefitted the widest possible range of rural businesspeople and artisans.

Practical steps towards industrial co-operative development have already been taken, though as yet in an uncoordinated fashion. One industrial co-operative - the weavers' co-operative described above - is already established, there are plans that the newly opened wool spinning mill will be co-operativised once established and the Co-operative Union is working on plans for the co-operative production of goods for sale in consumer and multipurpose agricultural co-operatives.

To a certain extent, practical support services for industrial development are already available in Botswana for the private sector. Extension and support services have been pioneered by the Botswana Enterprise Development Unit and related projects, and the new rural industrialisation programme is getting under way. It has to be noted however that none of these organisations have any specific brief at the present time to promote industrial co-operatives as such. The co-operative movement has a developed marketing infrastructure in the form of stores, warehouses and a transport fleet. This could well be utilized to ensure the effective distribution of the products of rural industrial co-operatives. Industrial co-operatives could also be developed to link with the existing Brigade training schemes so that ex-trainees would not be left without employment.

There are however a number of constraints on industrial co-operative development in Botswana.

Firstly, there are no organisations specifically promoting or offering support for this kind of enterprise. The various industrial development organisations as mentioned have no specific brief to undertake this kind of work, and the Department of Co-operatives concentrates its activities on the agricultural and consumer sectors of the co-operative movement. The Department is hard pressed with present resources to cope with the demands stemming from the growth of these sectors, and it has no staff who are experienced or specialised in the development of industrial co-operatives.

Secondly, there is a lack of a popular awareness of co-operatives' potential in manufacturing and service industries, partly because no promotion has ever been undertaken.

Thirdly, no specific financial arrangements are available in Botswana for industrial co-operatives. Finance is available for new starts sponsored by the Botswana Enterprise Development Unit but obviously funds are limited. Commercial banks do not have a very good record in providing loans for small-scale new starts in industry. Bearing in mind that rural craftspeople and artisans are unlikely to be able to offer banks normal commercial security, there is little prospect of their being a source of funds in the absence of some form of credit guarantee scheme. As for the co-operative movement, its funds at the present time are being concentrated in the agricultural sector, although the Co-operative Bank could possibly develop an industrial finance section.

Fourthly, there are general constraints on the development of manufacturing industry in Botswana which apply to co-operatives as much as to other forms of industrial enterprise. There is no strong rural industrial or artisanal base, nor is there a large or long-experienced industrial labourforce, and these together obviously will militate against rapid indigenous industrialisation. All industry suffers from the general marketing problems posed by the small, poor, and dispersed population, and the competition from the far more developed industrial economies of neighbouring countries.

In summary, it can be said that industrial co-operatives have the potential

- to mobilise local human, natural and financial resources behind industrial development in Botswana and to ensure that the benefits are evenly spread in line with the country's principle of Social Justice;
- to link planned rural industrial development with the existing co-operative marketing infrastructure;
- to develop local services, production for local markets, and local crafts; and
- to develop industry at a level between existing export orientated, capital intensive developments on the one hand, and very small scale individual entrepreneurs on the other.

If industrial co-operatives were to be developed successfully however it would be necessary

- to develop a joint strategy between the Ministry of Commerce and Industry, CODEC, and the Co-operative Union as the representative of the movement;
- to establish specialist support services, organised and located so as to be readily accessible to the widest possible population;

- to ensure that adequate finance could be made available; and
- to develop a programme of conscientization and education.

No plans have been drawn up in Botswana for an industrial co-operative development programme, but there is considerable interest in the potential of such a programme in certain quarters. In view of the expressed interest, the following recommendations have been drawn up.

### Recommendations

- 1 Following Botswana's participation in the forthcoming conference, representatives of the various Ministries and organisations should determine if an industrial co-operative development programme would be desirable and, if the decision is positive and if it meets with government approval, plans should be drawn up and an application should be made for funding to either multilateral or bilateral sources.
- 2 The programme could be organised along the following lines:-

#### Objectives

- to promote and support industrial co-operative development in Botswana;
- to work towards a balanced development between urban and rural areas in line with national policy;
- to develop the technical expertise of Botswana in the field of industrial producer co-operatives, their organisation and promotion, and to develop the industrial, business, commercial and organisational skills of the labourforce/membership.

#### It should commence by

- ensuring that Botswana co-operative and commercial law makes adequate provisions for industrial producer co-operatives and that model by-laws are drafted;
- developing linkages with existing institutions dealing with the co-operative movement and industrial promotion at both national and local levels;
- explaining the benefits of industrial producer co-operatives among concerned government departments and the rural and urban population as a whole.

#### It should undertake

- to provide all necessary support functions not adequately provided for at present for industrial

co-operatives including feasibility studies, organisational development, and on-the-job training and support;

- to plan and implement a comprehensive education programme for new members;
- to ensure that finance is available to commercially viable industrial co-operatives;
- to develop larger scale projects for future developments.

It should be established either as an independent unit along the lines of the Botswana Enterprise Development Unit, or within CODEC or the Ministry of Commerce and Industry or the Botswana Co-operative Union, but whatever course is followed full provisions should be made for coordinating its activities with those of all other related organisations.

- 3 Given that industrial co-operation is not well established in the country, the programme should be of a relatively small scale, undertake preparatory work, involve only a limited number of co-operative projects, and be subject to regular review.
- 4 If the benefits - in both economic and social terms - are not sufficient to justify its continuation, or if developments are not in accord with national development priorities, the programme should be terminated.
- 5 Technical support and expatriate assistance should be provided for a clearly specified period and the programme be designed to ensure an effective transfer of skills.
- 6 An education and training component for co-operative members and for promotional staff should be fully integrated into the overall programme.

## Appendix : List of Works Consulted

- 1980 Republic of Botswana, Ministry of Finance and Development Planning, National Development Plan, 1979-85.
- 1980 SOFRECO, Feasibility Study on Sorghum Milling Industry in Botswana : Final Report, Paris.
- 1981 Botswana Co-operative Union, Annual Report, 1980.
- 1981 Republic of Botswana, Ministry of Agriculture, Department of Co-operative Development, The Role of the Department of Co-operative Development and the Co-operative Movement in the Social and Economic Development of Botswana.
- 1981 Republic of Botswana, Ministry of Agriculture, Department of Co-operative Development, Co-operatives in Botswana : Draft Development Plan for the Period 1982-87.

CONFERENCE ON THE ECONOMIC AND SOCIAL POTENTIAL OF INDUSTRIAL  
CO-OPERATIVES IN DEVELOPING COUNTRIES

Industrial Co-operatives and Their Development  
Potential in Zambia

Nicholas Mahoney

with

Rodwell Kankomba and  
Willard Nang'amba of the  
Zambia Co-operative Federation

## CONTENTS

## Summary

- 1 Zambia, the Country and its Population
- 2 The Economy and Employment
  - 2.1 The Economy
  - 2.2 Employment
  - 2.3 The Manufacturing Sector
- 3 The Co-operative Movement
  - 3.1 The Development of the Co-operative Movement and its Role in the National Economy
    - 3.1.1 Government Support for Co-operatives
    - 3.1.2 Co-operative Institutions in Zambia
  - 3.2 The Structure of the Co-operative Movement
  - 3.3 Zambian Co-operative Law
- 4 Industrial Co-operatives in Zambia
  - 4.1 The Industrial Labour and Service Sector
 

Table 1 Industrial Labour and Service Co-operatives in Zambia, 1978
  - 4.2 Building Construction and Brickmaking Co-operatives
  - 4.3 Sand Supply Co-operatives
  - 4.4 Land Clearing and Refuse Removal Co-operatives
  - 4.5 Other Industrial Labour and Service Co-operatives
  - 4.6 Problems of Industrial Co-operative Development
- 5 Prospects for Industrial Development and Industrial Co-operatives in Zambia
  - 5.1 National Policy Bearing on the Development of Manufacturing Industry and Industrial Co-operatives
  - 5.2 Institutional Support for Industry and Industrial Co-operatives
  - 5.3 Finance for Industry
  - 5.4 Support for Industrial Co-operatives
- 6 Proposals for the Future Development of Industrial Co-operatives in Zambia
  - 6.1 The Conditions for Successful Industrial Co-operative Development
  - 6.2 Project Proposals
    - 6.2.1 Village Womens' Co-operatives
    - 6.2.2 Industrial Co-operative Extension and Support Service

Appendix : List of Works Consulted



## SUMMARY

There has been a significant development of industrial co-operatives in Zambia since the country's independence but, as a sector, industrial co-operatives have experienced many problems - problems as small-scale industries operating in difficult circumstances, financial problems, organisational problems - and they have not generally received adequate support.

The Government of Zambia is in the process of embarking on a programme of small-scale industrial development and this should help to meet some of the conditions necessary for a substantial growth in industrial co-operation. Support for industrial co-operatives as co-operatives is not available however and if progress is to be made steps will have to be taken to provide this.

## 1 ZAMBIA, THE COUNTRY AND ITS POPULATION

Zambia is a landlocked country with an area of 752,600 square kilometres. It had a population of 5,472,000 in mid-1978, almost half of which lived in two of the country's eight provinces - the Copperbelt and Central Province. These two provinces also had the highest growth rates, 5.2% and 5.1% per annum respectively, compared with an overall rate of 3%. The urban population at 2,153,000 was very large in relation to the total; the capital city of Lusaka had a population of 559,000 and a growth rate of 8.9% per annum compared with an overall urban population growth rate of 6.8%. Urban population increase is due largely to rural-urban migration. The overall population density is about 7 per square kilometre.

Zambia's natural resources provide for extensive and diversified agriculture, for the production of maize - the principal crop, rice, wheat, groundnuts, soyabeans, sunflower, cotton, tobacco, tea, coffee, cashew nuts, fruits and vegetables; for animal husbandry based on dairy and beef cattle, pigs and poultry; for the exploitation of forest resources; and for fishing. Mineral reserves are the country's most important resource, principally copper, but also other metals and minerals.

In the last decade, adverse weather, lack of imported inputs, poor transport and the shortage of funds have led to a decline in the production of certain crops. Production of copper - the principal export earner - has been relatively static over the last decade, affected by congestion of transport routes as well as by world prices and demand.

The country's internal road network is adequate in the better developed parts of the country but transport can be difficult in other areas. Zambia relies on road and rail routes through neighbouring countries for all its imports and exports; the political situation in some of these countries in the last decade has led to the closure of some of these routes and severe congestion at some of the ports - all with an adverse effect on the economy.

## 2 THE ECONOMY AND EMPLOYMENT

### 2.1 The Economy

Zambia's economy has grown very slowly over the last decade with an average annual real growth rate of only 0.6% per annum, and with a negative rate since 1976. In 1980, agriculture contributed 12% of GDP, mining about 29%, services 14%, manufacturing industry 12% and construction 5%. Over the period 1974-80, the relative contributions of these most important sectors remained virtually unchanged except for that of construction which fell from 10% to 5%. The fastest growing sectors were business services and real estate although their overall contributions to GDP remained relatively small.

Per capita national income was K302 in 1977 and it has fallen quite sharply over the last five years.

For some time now exports have generally been rather stagnant due to a lack of increase in exported copper and a declining trend in the export of agricultural products. Imports increased rapidly with the post independence development programme in the 1960s but, although they have been reduced in volume since 1972, the simultaneous increase in prices has left the import bill virtually unchanged. Due to the balance of payments crisis which ensued, the government restricted government expenditure, raised taxes, increased interest rates, increased import restrictions, and devalued the Kwacha.

## 2.2 Employment

In 1980, the total labour force was 1,759,000 and was growing at an annual rate of 3.51%. The rural labour force was 60% of the total. In 1970, the number of people in wage paid employment was 343,000; the number grew to 393,000 in 1975 but then fell back, recovered slightly, and stood at 384,000 in 1980.

Services accounted for 27% of formal sector employment with public sector employment predominating; mining for 18% with parastatal and private sector employers; construction for 14% (in 1976 before the collapse) with a significant proportion in public and parastatal sectors; manufacture for 11% just over half in the private sector; and distribution hotels and restaurants for 10%, the greatest part in the parastatal and private sectors.

The remainder of the labour force was engaged in subsistence agriculture, in non-agricultural non-wage occupations, or was un- or under-employed. It is clear that there has been no increase in wage employment to correspond to the increase in the labourforce.

There are recognised critical shortages of skilled personnel for middle and upper positions in Zambian industry but the virtual absence of small-scale industry in the past means that skilled managers are not generally available. Any small-scale industries programme for the private sector or for co-operatives must contain a significant training component.

## 2.3 The Manufacturing Sector

The manufacturing sector's contribution to national GDP rose considerably in real terms from 1965 when it stood at 6.8% to 1980 when it contributed 11.7%. Manufacture is principally for the domestic market and accounts for only 1% of total exports.

More rapid development of the sector, particularly in the 1970s, has been hindered by a number of factors. Among these are a lack of expansion in exports, import substitution which concentrates only on the final stages of manufacture of consumer goods, a shortage of foreign exchange, tight credit

after the IMF stabilisation programme in 1978, and increased lending rates and lending ceilings in 1978 and 1979. What is more, there has been a growing capital intensity in recent years, a failure to expand significantly employment opportunities, and a geographical concentration along the line of rail. Export has been hindered by transport problems but also because industry has not been able to operate at a level at which economies of scale can lead to competitive prices. Industrial development is concentrated in Copperbelt and Central provinces; 84% of all manufacturing enterprises are located there as well as 84% of all manufacturing sector employment.

Parastatal manufacturing companies have concentrated on large-scale technologically advanced plants and cover a whole spectrum of industries from food processing to chemicals, textiles to metal products. They contributed 51% of manufacturing value added and provided employment for 42% of all those working in the manufacturing sector. From 1969-76, public ownership of manufacturing expanded with assets growing at 15% per annum, turnover at 25% per annum, and employment at 23% per annum. The parastatal sector has suffered from shortages of raw materials, transport problems, inadequate foreign exchange allocations and price controls. The parastatal INDECO group operated at a loss in 1979 and 1980 and many of its subsidiaries had substantial under-utilised capacity.

The private sector contributes 49% of manufacturing value added but employs 58% of all those employed in the sector. Private sector firms are generally fairly large and there are very few small-scale or village industries; less than 5% employ 10 or less people while 15% have more than 140 employees. Non-Zambian foreign ownership remains the norm although recently a number of firms have been taken over by Zambian entrepreneurs. In the mid-1970s there was a significant number of closures, some decline in production, and in employment. Private sector industry was running at only 66% capacity in 1975 but in 1980 there was some improvement.

Small scale industry is largely undeveloped in Zambia and this has been the result of a combination of circumstances. The primary agricultural sector itself is underdeveloped and does not produce raw materials in any quantity to support small-scale agro-based and related industries. There is a very low population density in many rural areas, poor transport and therefore a fragmented market with a population with very low cash incomes. In the urban areas large scale manufacturing industry with its total reliance on imported intermediate goods generally does not demand the kind of inputs which small-scale industries in Zambia could produce with the present level of skills and technological development. The problem is exacerbated by the insufficiency of training facilities for technological and managerial skills and the ready employment available to the few skilled Zambians in large-scale parastatal and private enterprises. Inadequate credit facilities and poorly developed physical infrastructure have also held small-scale developments back.

Despite all the problems afflicting manufacturing industry in Zambia, there has been a significant increase in the number of registered enterprises. The Industrial Development Act of 1977 obliged all enterprises engaged in manufacturing activity to register. Between 1978 and 1980, 546 existing enterprises registered; in 1978 there were 44 new starts, in 1979 133, and in 1980 226. The new starts in 1980 proposed to invest on average K348,000 per enterprise and the emphasis was clearly in the medium to large-scale sectors. Proposed new starts were often unable to begin operations due to their inability to obtain the foreign exchange necessary to purchase machinery and equipment.

### 3 THE CO-OPERATIVE MOVEMENT

#### 3.1 The Development of the Co-operative Movement and its Role in the National Economy

##### 3.1.1 Government Support for Co-operatives in Zambia

In 1965, the year following independence, the government identified co-operatives as a possible way forward for the country. It called upon all those who were not gainfully employed to form themselves into co-operatives and promised financial and other assistance. The response was enthusiastic and in the year the number of registered co-operatives increased from 200 to 600. The support services were however overstretched and many of the hastily established co-operatives failed.

In the period of the First National Development Plan (FNDP) - 1966-1970 - government put emphasis on supporting farming co-operatives. The number of registered co-operatives increased but the movement was officially held later to have made little headway due to poor planning, members' and employees' low levels of co-operative education, the lack of feasibility studies, and the lack of loan capital support. The government was even keen to encourage communal farming but attempts received little popular support.

The Second National Development Plan for the period 1972-76 reaffirmed the government's support for the movement but - and here it echoed the provisions of the Co-operative Societies Act of 1970 - emphasised the need for the co-operatives to be economically viable, for members to receive co-operative education, and for competent management. It foresaw an increase in the number of secondary co-operatives (unions at the provincial level and federations at the national level) and it expected to see an improvement in co-operative bookkeeping and accounting with the formation of an audit and accountancy service.

In the decade 1969-78, the number of registered co-operatives fell from 1,121 to 757; even so, membership doubled to 97,000, share capital increased by 250% to K3.5 million, and combined turnover increased eight-fold in current prices to K66 million. Over the decade almost 300 new co-operatives

were registered while over 600 were dissolved.

The Third National Development Plan (1979-83) aimed to correct past mistakes with the promotion of co-operatives, but also planned for a greater degree of self-reliance in the co-operative movement. The plan aimed to "foster local participation of the members in the affairs of the co-operatives rather than relying on government initiative and support". In practice there was to be a continued emphasis on agriculture - with some return to the idea of collective farming, and a strengthening of the Department of Marketing and Co-operatives - the government department responsible for the movement. In practical terms, more co-operatives were to become multi-purpose, and there was to be a decentralisation of functions from government to the movement.

The government's commitment to the co-operative idea and the economic role of the movement was emphasised publically by the President in 1979 on the occasion of the opening of the Co-operative College. The movement has been officially recognised as a means to implement its policy of "distributing the national wealth as evenly and as equitably as possible among all the citizens." As a measure of its commitment to the movement the government has not only granted it a key role in agricultural supply and marketing, but has also provided it with substantial resources, particularly the large provincial co-operative marketing unions, the Federation of Building Co-operatives, the Credit Unions and Savings Association, and the Zambia Co-operative Federation.

Despite all the efforts of the government, certain sectors within the movement are still very weak and co-operatives at all levels have at times suffered serious financial or organisational setbacks. A recent mission of evaluation concerned with organisation at the federal level felt duty bound to observe that the foundations of the movement - the primary societies - were not everywhere strong and that many had doubtful economic viability, in many the members saw the co-operatives as external sources of benefits and not something of their own, many put little emphasis on capital formation, and that there was a need for relevant education schemes.

Government promotion of co-operatives in the country has co-existed with a significant degree of control over the movement. The same evaluation mission drew attention to this and traced it to three fundamental causes: the involvement of the government in the country's economic life; government investments in the co-operative movement; and the fact that the co-operatives have been asked to shoulder wide responsibilities in the country's development process. To these might also be added the government's increasing reliance on the agricultural co-operative sector to undertake the government's monopoly buying of maize, the country's principal cereal crop.

### 3.1.2 Co-operative Institutions in Zambia

#### The Department of Marketing and Co-operatives

The Department was formed in 1976 through the merger of the Departments of Co-operatives and of Marketing and operates within the Ministry of Agriculture and Water Development. Its functions are to coordinate all agricultural marketing activities; to foster viable and self-reliant co-operatives; and to be responsible for the registration and liquidation of co-operatives, general supervision, administration of the law, and general servicing of the needs of the movement.

In accordance with the law the Department will only register a new co-operative if it is sure that

- the co-operative meets its members real needs and has a chance of success;
- members have had sufficient co-operative education and have sufficient business information to run their co-operative;
- members have made some contribution to the co-operative either in cash or through their own labour;
- the co-operative has made plans for continuing education and training; and
- it has plans for mutual and self-help and for self-reliance.

Partly due to a shortage of staff time, there have sometimes been practical difficulties in ensuring that all the conditions are met on registration, particularly economic viability and member competence.

The Department is responsible for auditing the accounts of the co-operatives, except in the case of some of the large unions which engage private auditors. But in 1977 it audited the accounts of only 64 out of the 741 registered co-operatives and in 1978 only 59 out of the registered 757. It experienced problems due to lack of resources and transport, and because many co-operatives had not kept their books correctly or prepared their accounts.

#### Co-operative Marketing and the Provincial Co-operative Unions

Until 1980 maize (and other gazetted crops) could only legally be sold through the official agency Namboard which also was the only agency for the sale of subsidised and imported fertilizer and seed. However there was an unformalised arrangement whereby established co-operative unions in four provinces could purchase maize, sell inputs, and obtain restitution from the government. The government too guaranteed the bank credit the unions required to carry out these functions. The four unions resold to Namboard at the provincial level and there was a significant duplication of resources and effort.

There was also an administrative problem as Namboard did not always pay on time for the maize it took from the unions. The unions, like Namboard, bought maize at the official price.

Gradually, through the 1970s, the unions' share of total purchase rose in the four provinces, from 38% in 1976 through 46% in 1977 to 54% in 1978.

In 1980 the government decided to decentralise its grain purchasing from Namboard to the co-operative movement and unions were rapidly established in the provinces where previously they had not been formed.

Now the unions in all provinces, apart from undertaking maize purchase on behalf of the government, supply agricultural inputs, assist primary co-operatives to purchase hammer mills, help to establish consumer co-operatives, and provide agricultural credit.

#### Zambia Co-operative Federation (ZCF)

ZCF was established in 1973 but it developed slowly and suffered from a number of organisational and financial problems. It is the apex body of the Zambian co-operative movement and its members are the secondary co-operative unions in all sectors as well as many primary societies.

ZCF was reorganised and revamped in 1980 with assistance from SIDA and now has many functions including taking a representative role on behalf of the movement; acting as an agent for the State Insurance Corporation; undertaking research and planning; press and public relations; training; audit and accounting. It also has a commercial department which supplies the unions and primary societies. Until recently this operated on a relatively modest scale but since the reorganisation sales have risen dramatically and are expected to reach K6 million in 1981.

#### The Co-operative College

The Zambian Co-operative College was opened in 1979 to meet the education and training needs of the movement. It now offers courses at different levels for both co-operative members and employees. It has received substantial assistance from SIDA and has the services of ILO experts.

### 3.2 The Structure of the Co-operative Movement

According to the latest figures available (for 1978) the co-operative movement in Zambia comprised 749 primary societies with 93,171 individual members. In addition there were 7 secondary societies and 1 tertiary society (four further secondary unions were established in 1980).

Of the 749 primaries, 486 (65%) were involved primarily in the marketing of agricultural and arable produce and the supply of agricultural inputs. Subsequently however there has been a move to convert more of the agricultural societies into multipurpose co-operatives. There were 124 (16%)



industrial, labour and service co-operatives, 80 (11%) savings and credit societies, 46 (6%) consumer societies, 6 (1%) transport societies, and 7 (1%) engaged in miscellaneous activities.

The agricultural co-operatives had 56,278 members (60% of the total membership of the movement) and therefore an average membership of 116; savings and credit had 20,288 members (22%) and an average membership of 254; consumer societies had 11,615 members (12%) and an average membership of 253; industrial labour and service co-operatives had 3,503 members (4%) and average membership of 28; transport had 86 members (less than 1%) and an average membership of 14; and the miscellaneous societies had 1,401 members (2%) and an average membership of 200.

Levels of member investment were very low. Agricultural co-operatives had average share capital of K1,002 or K9 per member, savings and credit and no share capital; consumer co-operatives' average share capital was K1,250 or K5 per member; the industrial labour and service co-operatives' average share capital was K893 or K32 per member; the transport co-operative average was K1,210 or K84 per member; and the miscellaneous co-operatives' average was K2,038 or K10 per member.

Of a total of 749, 343 of the primary co-operatives were 'dormant' or totally inactive giving an overall dormancy rate of 46%. The dormancy rates for the various sectors were : agriculture 52%; savings and credit 4%; consumer 22%; industrial labour and service 60%; transport 0%; and miscellaneous 29%

The total turnover in the year for the active co-operatives was over K18 million. The average turnover for the active co-operatives in each sector was as follows : Agriculture K65,074; savings and credit K1,850; consumer K51,376; industrial labour and service K11,649; transport K71,418; and miscellaneous K77,756.

No detailed information is available on the economic performance of the primary co-operatives although the low level of reserves is perhaps some evidence of generally unsatisfactory performance. In each sector the average reserves per co-operative were agriculture K894; savings and credit K494; consumer K277; industrial labour and service nil; transport K138; and miscellaneous K5,755.

### 3.3 Zambian Co-operative Law

The operation of co-operatives of all kinds in Zambia is governed by the Co-operative Societies Act. The act provides for the registration and organisation of co-operatives, their membership and administration, and also specifies the rights and responsibilities of the government. The act defines co-operatives in terms of Co-operative Principles but in addition stresses their essentially non-profit making function in providing services to their members.

The act identifies the various types of co-operatives which may be registered. Under the heading of 'Artisans', Craftsmen's and Contracting Societies' the act allows for members to be employed to work collectively on behalf of the co-operative and for the co-operative to supply them with materials for use in individual production. There is a possible problem here for it appears that the act does not state explicitly that people employed by the co-operative must be members and this could give rise to a situation in which there could be two classes of employee - members and non-members - each with different rights.

Even though the act identifies various kinds of co-operatives - those in which members are beneficiaries of the services the co-operative provides and those in which members may be employees - the act seems better adapted to the former type. Section 17, designed to prevent associations of private dealers or traders forming a co-operative for personal gain would be very hard to apply to an industrial production co-operative. It states

'Notwithstanding the other provisions of this Act, a group of persons who desire to associate themselves together in trade or business primarily for gain, without provision for the distribution of profits amongst customers in proportion to patronage, shall not be registered as a society.'

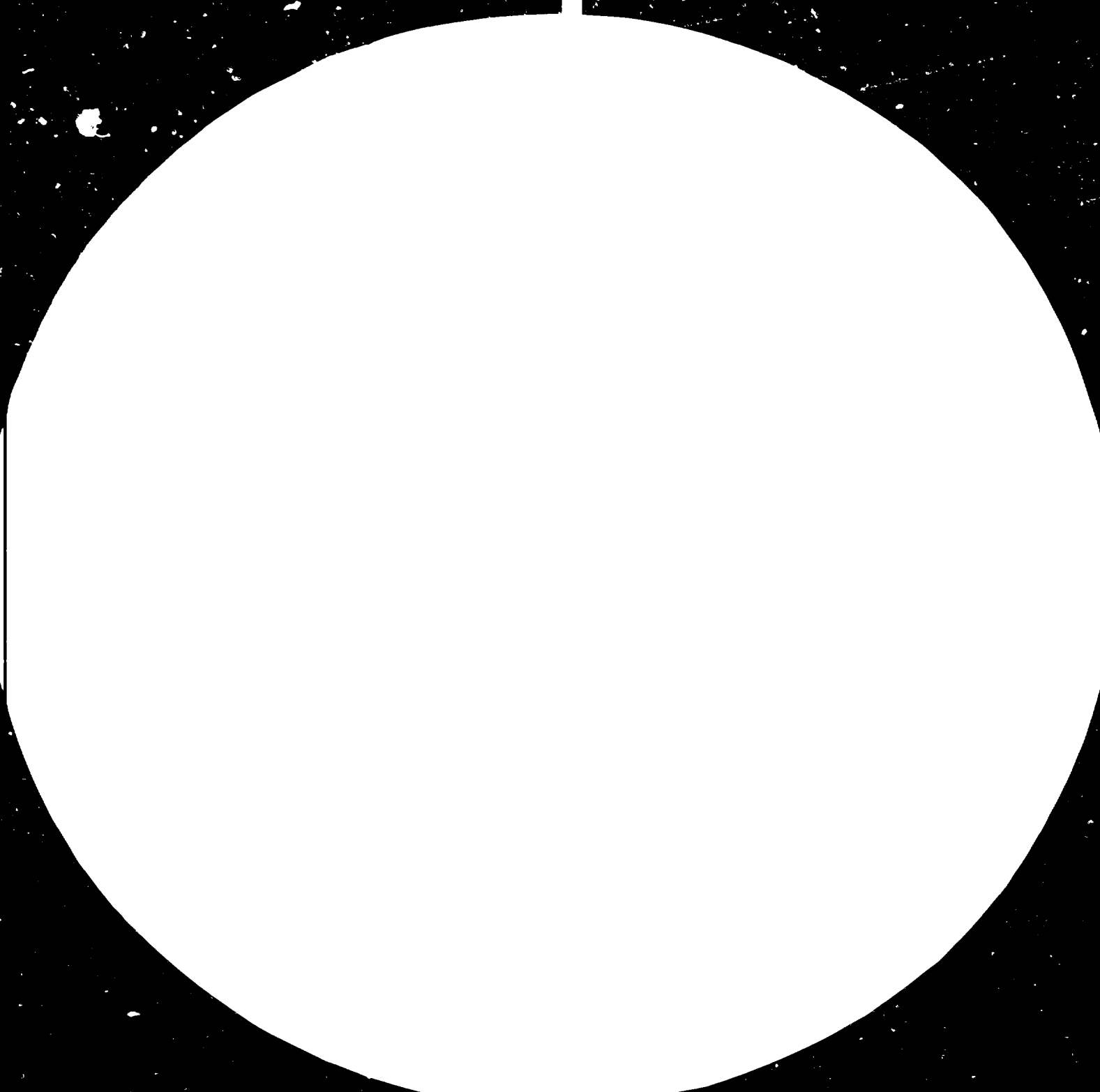
In a production co-operative, members usually seek gainful employment for themselves and distribute profits among themselves generally in proportion to the work they have contributed in the period. The interpretation would obviously have to be tested in the courts and does seem to hang on the interpretation of 'business'.

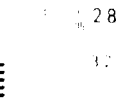
Section 10 states that the minimum number of people who may form a co-operative is 10. In all probability, a service providing co-operative would not be viable with less than this number. A production co-operative on the other hand, unless it has very privileged access to finance, will probably not go into operation employing more than five people at first. This means that there will be two categories of members : those employed in the co-operative and those who are not. There is a built in potential conflict of interest here which may well be damaging to any new venture.

#### 4 INDUSTRIAL CO-OPERATIVES IN ZAMBIA

##### 4.1 The Industrial Labour and Service Co-operative Sector

A profile of the industrial labour and service co-operative sector in Zambia for the year 1978 is presented in table 1. The sector is small with only 50 active co-operatives. What is more growth is very slow - no new co-operatives were established in 1978 for example - and the membership is stagnant or declining except for co-operatives in the carpentry, sand supply, painting and decorating and charcoal burning sub-sectors. The only sub-sectors in which the average turnover





MEIKO OPTIK, BREITENBURGER STR. 11, D-1000 BERLIN 10

TELEFON (030) 46371-11 FAX (030) 46371-12

Table 1 Industrial Labour and Service Co-operatives in Zambia, 1978

Type	No.	Number Active	Average membership	Av. Share Capital	Av. Share Cap/Member	Average Turnover of Active Co-ops
Building & Construction	62	17	14	138	11	10,837
Brickmaking	12	5	12	68	6	492
Carpentry	15	8	13	94	7	3,307
Sand Supply	10	2	10	9,369	918	52,788
Painting & Decorating	6	6	9	146	16	11,878
Charcoal Burning	7	7	245	479	2	6,356
Land Clearing & Refuse Removal	9	5	19	200	11	29,598
Coal Loading	1	0	45	90	2	-
Tin Mining	2	0	159	82	.5	-
<b>TOTAL</b>	<b>124</b>	<b>50</b>	<b>28</b>	<b>893</b>	<b>32</b>	<b>11,649</b>

per active co-operative was significant (ie, in excess of K1,000 per member) were sand supply, painting and decorating, and land clearing and refuse removal. The overall turnover for the sector declined in current terms between 1977 and 1978 and only the carpentry, painting and decorating, and land clearing and refuse removal sub-sectors registered any increase. There was a slight increase in the overall share capital in the year but it is clear that all the sub-sectors with the exception of sand supply were grossly undercapitalised.

#### 4.2 Building Construction and Brickmaking Co-operatives

The building construction co-operatives, although the most numerous, have had continuous problems in recent years and their future prospects, unaided, are not good. The majority of the building co-operatives are located in the 45 rural administrative head-quarters of the Republic and the remainder in the urban and peri-urban areas. In 1968, the government provided substantial financial support for the newly established Zambia Federation of Building Co-operative Societies which was to serve the interests of all building construction co-operatives in the country.

The fact that only 17 out of the 62 co-operatives had any activity during 1978 is an indication of the problems facing this sector. It appears that some of the problems are of internal and others of external origin to the co-operatives.

The co-operatives are said to be excessively slow in the completion of contracts awarded and to produce sub-standard work. At the same time, the rural co-operatives face the problem that there is no continuous supply of building and construction work for them.

In 1973, the Federation began to acquire large contracts on a national competitive tender basis, most of which were for public building programmes and included hospitals and nurses' hostels. Such contracts continued up to 1978 but the Federation generally could not complete on schedule and developed serious organisational and financial problems. These problems became so acute that the Federation was liquidated in 1980. A contributing factor to its demise was perhaps its reliance on government agencies for work and the problems it had working on fixed price contracts when the official prices of materials were being increased.

The aim of the Federation was to serve the interests of all the building co-operatives in the country but, in practice, it found this difficult. In 1978 the Federation completed work to the value of over K2 million while the combined turnover of 17 active building co-operatives was only K184,000. From 1973, with the award of the first big contracts, the Federation engaged its own direct labour force - ie non-members - and continued to use this for a large proportion of its work. Actual building co-operatives only received a small part of the work on a sub-contract basis. It was held that skilled artisans could command higher earnings working directly for the Federation than they could working for one of its member co-operatives.

The brickmaking co-operatives fared worse than the building co-operatives. By 1978 the turnover of the five out of 12 which were active was negligible. The principal reason for this was the general substitution in the building industry of concrete bricks for the kimberly bricks which the co-operatives manufactured. The capital investments required for the co-operatives to switch to concrete brick manufacture were too great given the meagre capital these co-operatives possessed.

#### 4.3 Sand Supply Co-operatives

The sand supply sub-sector appears to be the most active in relative terms, even though 8 out of the 10 co-operatives are dormant. The sector is in fact dominated by one co-operative in the Southern province which in 1978 with 51 members had 50% of the sub-sector's membership, 94% of its sharecapital, and 88% of its turnover. Turnover amounted to K1,829 per member which is quite significant but, even so, turnover was only equal to capital employed and this cannot be regarded as satisfactory.

#### 4.4 Land Clearing and Refuse Removal Co-operatives

Five of the nine registered land clearing co-operatives are active; of these, four are situated in the Copperbelt and undertake work seasonally for the Posts and Telecommunications Corporation. Together they have 36 members but employ non-members too in the peak season. With a very modest total investment of K454 in share capital, the four co-operatives achieved a combined turnover of K75,672 in 1978.

#### 4.5 Other Industrial Labour and Service Co-operatives

Of the other co-operatives in the sector, the painting and decorating co-operatives achieved a measure of success and a significant turnover in relation to membership. The charcoal burners co-operatives - all situated on the Copperbelt - were fairly active but could not provide very significant earnings for all their members. The introduction of new loading machinery meant that the services of the coal loading co-operatives were no longer required.

#### 4.6 Problems of Industrial Co-operative Development

Zambia has pursued a significant experiment in industrial co-operative development and stands out in that respect from most other developing countries. The experiment has not however been very successful as the foregoing discussion has illustrated. From this, it is possible to deduce certain key problems, although a definitive statement will only be possible following a far more detailed study.

Industrial co-operatives have been developed within non-manufacturing, labour and service industries, but their fortunes have necessarily been associated with those of the manufacturing and construction sector as a whole. Manufacturing industry has not displayed a very dynamic growth in recent years and the construction industry has suffered

from considerable decline. The co-operatives involved in or dependent on the construction sector have obviously suffered from this. It is important to note that manufacturing industry in Zambia is capital intensive, and fairly large-scale. Industrial co-operatives have therefore been pioneers in the small sector and have had to struggle under conditions which private investors have constantly avoided. Manufacturing industry has developed with import substitution which concentrates only on the final stages of the manufacture of consumer goods; it has relied therefore on imported inputs and small-scale industries supplying larger manufacturing enterprises have not been given a chance to develop.

Apart from these general problems, there are clearly problems specific to the co-operatives themselves.

The capital base of the industrial co-operative sector is exceedingly weak and as a consequence of this many co-operatives operate as 'labour only' ventures. Even for such work to be undertaken capital is required and the potential adequately capitalised co-operatives could achieve is illustrated by the success of the one sand supply co-operative with substantial member share capital

Inadequate capitalisation has two causes, one internal and the other external. The internal cause is the failure of industrial co-operative members to invest in their co-operatives. They may well not be able to afford to make substantial investment but the problem appears to go deeper than this. Even in most of the co-operative sectors which achieved significant turnover, that is where members had some income however inadequate, investment was alarmingly low: often less than K100 per co-operative and in the greater number of sub-sectors less than K10 per member. This seems to point to members' lack of confidence in or commitment to their co-operatives, perhaps to a feeling that the enterprises were not theirs as was noted by some commentators on the agricultural co-operatives.

Lack of member investment might have been less of a problem had external sources of finance been available, but the absence of such sources was the external cause of low capitalisation. Industry does not develop without capital; the fact that it is co-operatively organised makes no difference in this regard.

The promotion of a secondary co-operative by the government in the building sector was a means of giving primaries access to markets and of tendering for contracts which were too large for any individual enterprise. Notwithstanding the fact that the building federation had to operate at a time of severe contractions in the industry, it suffered from numerous organisational difficulties. By employing its own direct labourforce, it arrived at the point at which it was effective in competition with the primary building co-operatives which were its members, rather than serving their interests. Secondary co-operatives have been able to serve the interests of their members in other countries and it would



be a pity if this one failure were to discourage the development of federations in the future.

The building co-operatives were said not to have been at all efficient in their work and this suggests a problem of management. Given that it is reasonable to assume that the members of these co-operatives did not have significant previous experience managing small-scale firms, this is not really surprising. It is notable that the industrial co-operative sector grew at a time when education for members in either business or the principles of co-operation was unavailable. Had conditions in manufacturing industry not been so severe in recent years managerial inexperience might not have been so crucial for the co-operatives, but this was not the case.

In summary, the industrial co-operative sector in Zambia has suffered from the recession in manufacturing and construction, the structure of the manufacturing sector, and the poor conditions existing for the development of small-scale industry; from undercapitalisation, lack of member commitment and an absence of external sources of finance; from organisational problems in secondary co-operatives; and from the lack of business and co-operative experience and training among members.

## 5 PROSPECTS FOR INDUSTRIAL DEVELOPMENT AND INDUSTRIAL CO-OPERATIVES IN ZAMBIA

### 5.1 National Policy Bearing on the Development of Manufacturing Industry and Industrial Co-operatives

Present policy as embodied in the Third National Development Plan for the period 1979-83 "has been formulated as an instrument for attaining the objectives of self-reliance and socialism within the national philosophy of humanism". Emphasis is put on comprehensive planning of the economy, the "commanding role" of the public sector, and also on a "balanced development, having regard to linkages between industry, agriculture and other sectors of the economy." The plan considers generation of more and fuller employment and the adoption of technology which is labour intensive. The economic structure will be diversified and there will be a crash economic programme to promote agricultural and integrated industrial development based on local raw materials to satisfy domestic demand and generate exportable surpluses. Highest priority will be given to rural development with a major emphasis on, among other things, the promotion of village and small-scale industries as an integral part of rural development.

Emphasis is placed on small-scale industries as they are seen to generate more jobs per unit of investment than do larger firms, and to have a greater indirect employment impact as they draw more upon domestic sources than on imported inputs. They also encourage local entrepreneurship and make use of appropriate technologies. The Plan identifies marketing and finance as two major problems of small-scale industries and the government has undertaken to provide the necessary fiscal

incentives and credit facilities and to adopt a preferential purchase policy towards the products of small industries. The Plan foresaw the formation of the Small Scale Industries Development Organisation (see below).

The plan identifies priority industries for particular emphasis, they are : agro-industries; semi manufactured products of copper and brass; chemicals, fertilizers, cement and ceramics; mining equipment; agricultural tools; and building components. In general it favours industries processing local agricultural and forestry raw materials and those based on local mineral resources and / or local manufacturing capital and intermediate goods.

Co-operatives are identified as having an important role to play as "the whole programme of small-scale industries development will include the rural reconstruction centres, co-operatives, village industries, existing and emerging small private entrepreneurs and parastatal companies." It is envisaged that "industrial co-operatives in townships and villages will be set up. These will engage in various types of small-scale and cottage industries . . . under the overall supervision and support of the Small Scale Industries Development Corporation."

The plan recognises that "little progress" was made during the period of the second plan in the development of rural and small-scale industries and aims to institute corrective measures.

## 5.2 Institutional Support for Industry and Industrial Co-operatives

### Small Industries Development Organisation

The third plan charges the Ministry of Industry, Commerce and Foreign Trade to identify individual potential projects and undertake feasibility studies in the priority industries, and to establish a Small Industries Development Organisation which will take over the studies. These will be offered to "private, parastatal and / or co-operative investors."

The Organisation was beginning its operations at the end of 1981 and offered consultancy, financial, procurement, marketing and industrial estate services. The organisation was also established to coordinate the activities of all small and cottage industries whether operated by private entrepreneurs, parastatal companies or industrial co-operatives. It receives support from UNIDO in the form of experts and funds for industrial feasibility studies.

### Village Industry Service (VIS)

VIS was established in 1979 and came into operation in 1980. It was set up to stimulate, assist and promote village industry development nationally in an organised way. It functions to coordinate initiatives, assemble feasibility data, maintain advisory and information services, locate and exploit new possibilities, to provide education and training, to assist with marketing, and to promote village industry through church and social bodies.

VIS works through local institutions, providing the specialised inputs to assist applicants with their financial applications. It has begun to work with projects in a varied range of small-scale activities but in all cases it insists that the individuals or groups concerned make a significant capital contribution of their own. VIS has planned a village industry training scheme with UNIDO support.

VIS has a women's co-operative project planned and the outline of this is presented in section 6.

#### The Bank of Zambia

The Bank is a central bank and not primarily a lending institution. It has however played a significant part in the Standing Committee on Small-Scale Industries which has been preparing the way for new forms of development finance for small-scale industries.

#### The Development Bank of Zambia (DBZ)

DBZ is the main source of finance for industrial and agricultural development and to date has been the only source of fixed capital loans for industry. Small-scale industry has not received significant funding from this source however.

#### Commercial Banks in Zambia

There are three foreign owned commercial banks and one state owned National Bank. They have been a source of short-term credit only to date and therefore have not made any significant contribution to industrial development.

#### Department of Technical and Vocational Training

The department of the Ministry of Education has 14 technical and vocational schools which offer technical courses and courses in industrial trades. The industrial sector sponsors about half of the students but the number of graduates has not been sufficient to meet the requirements of industry particularly in accountancy, bookkeeping, business studies and secretarial fields.

### 5.3 Finance for Industry

Financial provisions for industry and for small-scale industry in particular are not well developed in Zambia and this clearly has limited developments in the past. With the new emphasis on the development of small-scale industry plans for the improvement of credit arrangements are at an advanced stage of preparation.

To date, banks have demanded from applicants as per normal banking practice evidence of competence and of commercial viability, and security usually equal to twice the value of the loan required. Applicants have not been able to approach one institution to meet all their financial requirements as the commercial banks only provided short-term credit and only the DBZ would provide finance for fixed capital investments although the minimum it would lend was K25,000.

With the Third National Development Plan's proposals for small-scale industry, a Standing Committee on Small-Scale Industrial Financing was established with representatives from all financial institutions, the Cabinet Office, multilateral development organisations and the university. The standing committee's task was to identify the problems of financing small-scale industry and to develop solutions. The first problem identified was that the banking acts made no provision for lending to small-scale industries and it has now been recognised that amendments are required. Other proposals made by the committee are that banks should play a more positive developmental role, long- and short-term credit should be available from one institution, there should be a lowering of minimum credit limits, there should be a lowering of demands for security, there should be differential interest rates for priority areas and industries, there should be repayment grace periods, a government credit guarantee scheme should be established, and supervision and support for borrowers should be provided by the Small Industries Development Organisation.

#### 5.4 Support for Industrial Co-operatives

Industrial co-operatives have been identified as having a general role in small-scale industrial development but no specific provisions have been made for them. As small-scale industries they will fall under the overall supervision of the Small Industries Development Organisation, and where appropriate they will be given support by VIS. Present developments though are not being related to those undertaken in the past with industrial co-operatives. No industrial co-operative extension, development, education or support arrangements have been made to complement the technical services provided by the various organisations, and the potential for linkages between existing co-operative institutions and newly forming industrial development organisations or the industrial co-operatives they promote have not been explored.

Clearly support from the new organisations, and from VIS in particular, will make up for some of the problems industrial co-operatives have previously encountered. There remains an important role for the co-operative movement in terms of promotion, organisational support, integration of the different branches of the movement, and education and training specifically geared to producers' co-operatives. If the movement could provide such services, the present efforts of VIS and other organisations would be more certain to be successful.

The Zambia Co-operative Federation has expressed its interest in developing a project along these lines and a draft outline of this is presented in the next section.

## 6 PROPOSALS FOR THE FUTURE DEVELOPMENT OF INDUSTRIAL CO-OPERATIVES IN ZAMBIA

### 6.1 The Conditions for Successful Industrial Co-operative Development

Industrial co-operatives have not had a great success in the past although a few are in operation. If they are to succeed in the future they will probably do so only in the context of a general development programme for manufacturing industry as many of their problems have derived from the problems of the way manufacturing industry has operated and the lack of favourable conditions for the development of the small-scale sector. Industrial co-operative success will also depend on adequate funding, member commitment, adequate support facilities and linkages with the rest of the co-operative movement, and adequate provisions for the business training and co-operative education of members.

National development policy has long expected the co-operative movement to play an important role. Encouragement has been given at various times to production co-operatives in both agriculture and industry. The Co-operative Societies Act defines the development function of co-operatives as

"increasing incomes and employment by a fuller utilization of resources, including the . . . processing of agricultural and natural products, the development of local industries, and processing of raw materials."

Co-operatives are also seen as a means of "contributing to the economy an increased measure of democratic control of economic activity". Difficulties experienced over the years with producer co-operatives appears to have led to a watering down of these commitments in recent plans for the industrial sector.

Present development activities aimed at fostering the growth of small-scale rural industry in Zambia, particularly as the organisations involved will cater for industrial co-operatives as well as private enterprises will help to improve the prevailing conditions for co-operative development, particularly on the technical side. Assistance will also be available to help new starts obtain finance, but all schemes expect the entrepreneur/members to make a substantial financial contribution at the outset. This means that the schemes will not help the poorest members of the labourforce whatever their level of commitment and willingness to contribute their labour and reinvest profits. Means to foster member commitment and, in the first instance, to develop popular awareness of the potential for industrial co-operatives have not yet been developed and this may well hold back developments. Links with the established co-operative movement and with existing co-operative institutions have not been established to date by all the organisations now involved in small industry promotion and finance and this too will not help the development of new co-operatives. Finally, provisions have not been made for close and continuing technical support to new

industrial co-operatives, particularly as none of the agencies involved have experience with this form of organisation. Education in co-operation and in business specifically aimed at industrial co-operatives is also unavailable.

## 6.2 Project Proposals

Two projects have been drawn up in provisional form which could help to fill the gaps in present programmes. The first, proposed for discussion only at the present stage by VIS, aims to extend its activities in small-scale rural industrial development to help rural women obtain employment and industrial co-operatives have been chosen as the best adapted organisational form. The second set of proposals which come from the Zambia Co-operative Federation are for an experimental project which in providing extension, support, finance, and training for industrial co-operatives would complement the services now being developed by the two principal small-scale industry promotion organisations. This would be done by providing a specifically co-operative dimension and by extending opportunities to the poorer sections of the labourforce. There are other potential industrial co-operative projects in Zambia where support is required by established training schemes to develop co-operative employment opportunities for their trainees. The ZCF is to investigate these further.

### 6.2.1 Village Women's Co-operatives : Village Industry Service

**Aims and Objectives:** As part of its programme of encouraging the development of new rural industries including co-operatively run industries, VIS intends to help womens' groups in 52 villages to establish co-operative industries. The immediate aim is to provide employment opportunities which are otherwise nonexistent for women in the rural areas; the project also aims to further the programme of small-scale and village industries development now under way in Zambia to promote employment, diversify the economy, and develop industries meeting local needs using local materials.

**Scope:** The project intends to have national coverage with 52 projects each employing an estimated 10 women.

**Project Programme :** VIS is already involved in the process of identifying possible business opportunities and will help the groups concerned to develop small-scale industrial or manufacturing enterprises which will exploit available local resources and cater for local demands which are at present unmet or met only inadequately through high priced imported goods. VIS will give all necessary assistance to the co-operatives but expects them to become self-reliant in the shortest possible time. Once the village groups and potential business opportunities are identified, VIS intends to run a training scheme in Lusaka for one member of each group covering specifically business management. The trainees will be equipped to instruct their fellow members on return to the village. The co-operatives will then be established and VIS will make it a condition of its support that 10% of total capital costs - on average K1,500 - come from local contributions.

Support Required : VIS will undertake project identification and development together with the groups concerned. It will also undertake to supervise the projects once established. Assistance is required to meet the costs of training and also for loan finance for the co-operatives themselves.

Estimated Training Costs	50,000
Estimated Loan Finance	650,000
Total financial assistance	<u>K700,000</u>

Executing Organisation : Village Industry Service, PO Box 35500, Lusaka, Zambia

#### 6.2.2 Industrial Co-operative Extension and Support Service : Zambia Co-operative Federation

Aims and Objectives : The project will be a pilot one to lay the foundations for industrial co-operative development services to complement and extend existing small-scale industrial development services in Zambia. The specific objectives would be

- to develop extension, promotion and other services for industrial co-operatives;
- to develop the skills of Zambians in the techniques of industrial co-operative development;
- to provide specialised services for industrial co-operative organisation to ensure the managerial and organisational viability of industrial co-operatives which benefit from other sources of technical assistance;
- to provide intensive support services to new starts;
- to investigate and assess the feasibility of business and manufacturing proposals both in economic terms and in terms of their viability as industrial co-operatives;
- to provide education and training for members;
- to help extend small-scale industrial development through industrial co-operatives to the poorer and less advantaged sections of the population, particularly by providing small seed capital loans;
- to operate initially on a small scale in selected areas so that the benefits of intensive support can be assured and assessed;
- to identify any impediments in the way of industrial co-operative development and take steps to remove them; and
- to develop, if the initial results are positive, large scale services for industrial co-operatives.

Project Programme and Methods : The project would run initially

for a period of two years with a small professional staff : two expatriate technical assistants and two Zambian counterparts. The technical assistance would be for a limited period only to ensure the development of Zambian skills. The early stages of the project would be spent planning the details of the programme and developing publicity and extension services. Subsequently the project would be field orientated in order that intensive and direct support could be provided to the new co-operatives. Apart from contributing to the development of new starts, the project could provide financial assistance in the form of seed capital loans or grants where these would make the difference between success and failure or would be a means of attracting further finance from other sources. Zambian professional staff would in all probability require orientation and training in the promotion and operation of industrial co-operatives and this would be an important part of the technical assistants' brief.

**Finance and Support Required :** The Zambia Co-operative Federation does not have the means to support this project and all necessary funds would probably have to be provided by bi- or multi-lateral donors. A detailed budget has not been drawn up but would have to allow for

- costs of two technical assistants for two years
- salaries for two Zambian counterparts including field allowances;
- wages and salaries for three support personnel;
- office capital and running costs;
- vehicle and transport costs; and
- a loan fund of the order of K300,000 over two years to provide 50% funding for 400 jobs in 40 co-operatives.

**Executing Organisation :** The Zambia Co-operative Federation, PO Box 33579, Lusaka, Zambia.



## Appendix : List of Works Consulted

- 1970 Government of Zambia, The Co-operative Societies Act, Act No 63 of 1970.
- 1979 Republic of Zambia, Office of the President, National Commission for Development Planning, Third National Development Plan, 1979-83.
- 1979 UNIDO, International Centre for Industrial Studies, Country Industrial Development Profile of the Republic of Zambia.
- 1980 Republic of Zambia, Ministry of Lands and Agriculture, Department of Marketing and Co-operatives, Annual Report for the Year Ended 31st December, 1978.
- 1980 Republic of Zambia, Office of the President, National Commission for Development Planning, Third National Development Plan : Annual Plan 1980.
- 1981 Saxena, S.K. & S. Svedberg, Programme for Co-operative Development in Zambia.
- 1981 Republic of Zambia, Office of the President, National Commission for Development Planning, Economic Report 1980.
- n.d. Chivuno, L.S., Address to Small Scale and Village Industries Programme Seminar, National Commission for Development Planning.
- n.d. Mapona, J. (Mrs), Financial Constraints Facing Village People, Village Industry Service.
- n.d. Recommendation by the Two Committees on Policy and Procedures for Sanctioning Loans to Small-Scale Industries.

CONFERENCE ON THE SOCIAL AND ECONOMIC POTENTIAL OF INDUSTRIAL  
CO-OPERATIVES IN DEVELOPING COUNTRIES

Industrial Co-operation and its Future in Zimbabwe

Nicholas Mahoney

Report of UNIDO Mission to Zimbabwe

December, 1981

## CONTENTS

## Overview

- 1 Introduction
    - 1.1 The Country Background
    - 1.2 National Policies and Programmes
    - 1.3 Government Policy on Co-operative Development
  
  - 2 The Co-operative Movement in Zimbabwe
    - 2.1 A Profile of the Co-operative Movement
    - 2.2 The Development of the Movement  
Table 1 The Development of the Co-operative Movement in Zimbabwe
    - 2.3 The Marketing and Co-operative Services Section
  
  - 3 The Economy and the Development of Manufacturing Industry
    - 3.1 The Economy and Employment
    - 3.2 The Manufacturing Sector
  
  - 4 Industrial Co-operatives
    - 4.1 Co-operative Industry in Zimbabwe
    - 4.2 Industrial Co-operatives : Three Case Studies
      - 4.2.1 Canon Paterson Craft Centre Co-operative
      - 4.2.2 Zimbabwe Welding and Metal Work Co-operative
      - 4.2.3 Harare Weaving Centre Co-operative
  
  - 5 Summary and Conclusions
    - 5.1 The Present Position of Industrial Co-operatives
    - 5.2 The Potential for Industrial Co-operatives in Zimbabwe
    - 5.3 Future Developments
- Appendix : List of Works Consulted

## OVERVIEW

There are very few industrial co-operatives in Zimbabwe at the present time although interest in them is growing among potential members and they could well make a significant contribution to the implementation of the new Government's policies for economic and social development.

Manufacturing industry in Zimbabwe is relatively well developed and it plays an important role in the economy. It has developed however largely in the urban sectors and its full benefits have not been felt by the rural population. With the planned development of the rural economy and of small-scale industries throughout the country, industrial co-operatives could play a significant role, not only in terms of economic growth and employment creation, but also in terms of further work-place democracy and the more equitable distribution of income through the whole population.

The co-operative movement is well established and is growing rapidly, but, to date, there has been no active promotion of industrial co-operatives either within the movement or by the Government. Developments which have occurred have been spontaneous and haphazard and new co-operatives have not received the support which ideally they required. No concrete proposals have been drawn up for industrial co-operative development in Zimbabwe but if current trends continue, such co-operatives could well play an important role there in the future.

## 1 INTRODUCTION

### 1.1 The Country Background

Zimbabwe became independent on 18th April 1980 after a war which had made thousands of people homeless, severely damaged much of the economy, and divided the black and white population, to say nothing of its costs in terms of human life. The new Government therefore took as its first priorities the implementation of its programme of reconciliation, rehabilitation, resettlement and reconstruction even while it began to develop its new economic and political policies.

Zimbabwe is a landlocked country of 391,000 square kilometres in south-central Africa. It has a relatively well developed internal communications network of road and rail although much of the rail network had to be reconstructed after the war. It has links to the sea by rail via the ports of Maputo and Beira and via South African ports but all the routes have some problems. Much of Zimbabwe is suitable for agriculture and its different regions allow for diversified farming with cattle, plantations and orchard crops, through intensive dairy farming and the production of maize, tobacco and cotton, to semi-extensive farming and ranching in the more arid regions. Zimbabwe is well endowed with mineral deposits with gold, followed by asbestos and nickel being the three biggest contributors to mineral export earnings.

Zimbabwe's population in 1979 was an estimated 7.25 million of whom 96% were black and 3.3% white. With a relatively high birth rate, more than 55% of the population is under 15. The urban population is 20% of the total, and over two-thirds of this is concentrated in the two towns of Salisbury and Bulawayo. A significant proportion of young men migrate for work out of the rural areas leaving an unbalanced labour force there. Many of the rural areas are overcrowded, these concentrations of population and the consequent pressure on resources having been caused, in part, by the distribution of the country's land along racial lines.

Zimbabwe is a classic case of a 'dual economy'. It has, on the one hand, a fairly advanced and sophisticated 'modern' commercial and agricultural sector and, on the other, a rural subsistence sector which is one of the most underdeveloped in the world. Investments have long been concentrated in the 'modern' sector and as a consequence there are huge differentials in labour productivity between it and the subsistence sector resulting in gross inequalities in income of the order of 20:1. Income differentials also exist within the 'modern' sector itself where black workers in 1979 had average earnings of Z\$1,180 while other workers had average earnings of Z\$11,950.

### 1.2 National Policies and Programmes

The Government has already taken steps to redress the social and economic balance in the country but in the long-term it plans to rely on economic growth and in particular rural development, combined with a more egalitarian income

distribution to bring about the changes it desires.

In February 1981, the Government published Growth with Equity: An Economic Policy Statement which set out its policy guidelines. Zimbabwe is to become a society based on socialist, egalitarian and democratic principles and is to pursue policies to ensure rapid economic growth, full employment, price stability, dynamic efficiency in resource allocation and an equitable distribution of the ensuing benefits. Among the further objectives outlined in 'Growth with Equity' of relevance here are rural economic development, the training and mobilisation of human resources, and the democratisation of the work place in all sectors of the economy.

### 1.3 Government Policy on Co-operative Development

The Government of Zimbabwe has proclaimed its adherence to socialist principles and co-operative methods. The precise formulation of these policies and programmes for their implementation have yet to be completed but it is clear that the ambivalent attitude of previous administrations towards the development of co-operatives to serve the peasant sector will be replaced by a strongly supportive one. This supportive attitude has already been demonstrated by the provision of short-term finance to the agricultural service (marketing and supply) co-operatives in 1980 and the allocation of considerable funds for their infrastructural development in 1981. The Government has advocated the establishment of co-operative enterprises over a wide range of economic activities and has made clear its close interest in the formation of production co-operatives, particularly in the agricultural sector.

## 2 THE CO-OPERATIVE MOVEMENT IN ZIMBABWE

### 2.1 A Profile of the Co-operative Movement

The co-operative movement in Zimbabwe is predominantly concentrated in the agricultural sector and for the most part its activities are the supply of agricultural inputs and the marketing of produce. Since independence, however, the most rapidly growing sectors of the movement have been the farming production co-operatives followed by industrial and related co-operatives. Rapid growth has not yet been matched by high levels of economic activity but, if present trends continue, co-operative production will soon play a very dynamic role in the movement.

In 1980 there were 376 registered and operational co-operatives, of which 13 were secondary or apex societies and the rest primaries. The majority of the primary co-operatives (91%) were agricultural and almost all of these agricultural supply and sale. The second largest category comprised Credit Unions and Thrift and Loan co-operatives which together made up 6%. There were four industrial or handicraft co-operatives, two consumer, two housing, and three miscellaneous co-operatives also in operation.

By August 1981, the number of co-operatives had increased by 8%. There was a small increase in the number of agricultural supply and sale co-operatives (+2%), but the number of registered agricultural production co-operatives increased from 1 to 19, and grew to 25 by December, even though the majority were not fully operational. At the same time, the number of industrial co-operatives increased to 7 (+75%) and at least 2 more had been registered by December.

## 2.2 The Development of the Movement

The co-operative movement - basically an agricultural movement - has historically served the interests of black farmers in 'communal' and small-scale commercial farming areas. At first, it simply acted as a channel for the purchase of agricultural produce by the statutory marketing boards. Since 1974, however, many agricultural co-operatives have also been handling agricultural inputs and even consumer goods and so have developed into multi-purpose rural co-operatives in practice. With help from the secondary unions, co-operatives have recently been advanced credit to enable them to make cash purchases of grains. The overall significance of the movement in agricultural marketing can be gauged from the fact that in 1980 it handled Z\$3.4 million of produce in a year in which marketed agricultural produce from the peasant farmer sector was an estimated Z\$28.9 million while that for the commercial farming sector was about Z\$590 million.

While it is clear that the movement was not encouraged to play a central economic role under the pre-independence administration, it has showed a creditable rate of growth in turnover over the last two decades. Turnover increased from Z\$144,000 in 1960, through Z\$2 million in 1970, to almost Z\$15 million in 1980 (see Table 1). Between 1979 and 1980, the value of produce marketed by the 45,000 strong membership of the agricultural sector co-operatives increased by 100% to Z\$3.4 million. Over the same period, trading increased by over 500% to Z\$11.3 million. This was because the agricultural co-operative unions and the primary co-operatives played a central role in the procurement and distribution of inputs under the UNHCR Rehabilitation Scheme, the Agricultural Finance Corporation Small Farm Credit Scheme, and the Government's Drought Relief Scheme.

The 12 co-operative unions have been instrumental in the development of primary agricultural societies in recent years. Apart from the credit scheme already mentioned, which the unions arranged with the Agricultural Finance Corporation, the unions now have 40 local distribution depots and 400 collection depots as well as 12 consumer stores.

The development of industrial and related co-operatives will be discussed further in section 4.

## 2.3 The Marketing and Co-operative Services Section

Government support for and supervision of co-operatives in Zimbabwe is undertaken by the Marketing and Co-operative Services Section of the Ministry of Lands, Resettlement and

Table 1 The Development of the Co-operative Movement, Zimbabwe

Type	Year	Number in Operation	Membership	Capital	Turnover
Agricultural Supply and Marketing	1960	21	1 830	8 430	143 974
	1970	283	22 397	143 066	2 000 720
	1980	331	44 863	316 852	14 744 101
Credit Unions	1960	NA	NA	NA	NA
	1970	14	1 861	930	NA
	1980	18	2 023	1 534	48 420
Other Co-operatives	1960	2	483	21 050	NA
	1970	4	193	80 546	NA
	1980	13	4 332	132 747	NA

Source : Report of the Director of Marketing and Co-operative Services, 1980.



Rural Development (formerly the Ministry of Agriculture). The Section has a very small headquarters staff with two sub-sections, Development and Technical, each with its own Assistant Director. It has field offices in each of Zimbabwe's eight provinces undertaking servicing and extension functions. At the present time, the section does not have its full complement of staff and it is felt that to provide an acceptable level of extension services to the expanding co-operative movement, it requires substantial allocations of finance and skilled staff.

It has been proposed that the present Section become a Department of the Ministry and that it consist of four new sections:-

- 1 Field to service agricultural marketing and supply co-operatives and agricultural collectives, and to develop infrastructure;
- 2 Planning and Research to undertake these functions along with education, training and promotion;
- 3 Savings and Credit to deal with credit unions, other co-operative financial institutions, and non-agricultural (including industrial) co-operatives; and
- 4 Technical to deal with registration, inspection and audit, and other legal and financial matters.

The present priorities of the Section are its own reorganisation so that it can cope effectively with increased demand and changing policies, the development of concrete programmes to implement national policy on co-operation, and the continuation of its work with the very important agricultural sector of the movement.

### 3 THE ECONOMY AND THE DEVELOPMENT OF MANUFACTURING INDUSTRY

#### 3.1 The Economy and Employment

Zimbabwe's economy has grown and changed structurally over the last 15 years but its development has been affected significantly by sanctions and by the war.

Over the period 1965-79, GDP in current prices grew by 17.1% per annum on average and in constant prices by 4.1% per annum. Between 1965 and 1974, growth in constant prices was as high as 8.4% per annum but after that it fell to 2.1% per annum. In 1980 a real growth of between 4 and 6% was expected. Constant GDP per capita increased during 1965-74 but then fell back until, in 1979, it was at almost exactly the same level as in 1965. Per capita income in current prices in 1979 was an estimated Z\$365. Foreign trade in 1964/65 was equivalent to more than 70% of GDP but by 1979 it had fallen to 50% and deteriorating terms of trade meant that the country had to export more than twice the volume of goods to buy the same amount of imported goods as it had in 1965.

Growth in the decade 1965-75 was largely concentrated in the 'modern' sector and particularly in manufacturing industry.

To save foreign exchange, the trend towards import substitution and processed exports was accelerated. In the same period agriculture almost doubled its output. The decline after 1975 was due to a combination of circumstances: the tightening of sanctions, the escalation of the war, and severe shortages of foreign exchange. Replacement of capital equipment was kept to a minimum and independent Zimbabwe inherited a stock of over-aged, largely worn out and often obsolete capital stock.

The war had a serious negative impact on the rural areas. In the agricultural sector over 1 million cattle died and much of the physical infrastructure was destroyed. The social infrastructure was damaged too and this had knock on effects for the rural economy.

The structure of the economy has changed significantly over the last 25 years and this is reflected in the composition of GDP. In 1954, the agricultural sector accounted for 29% of GDP, manufacturing for 15% and mining for 9%. By 1965, the proportions had changed so that agriculture accounted for 21%, manufacturing for 19% and mining for 7%. By 1975, agriculture's and mining's shares had remained steady at 21% and 7% respectively, but that of manufacturing had grown to 24%. In 1979, a gross breakdown of GDP was: agriculture 12%, mining 8%, manufacturing 30% and services including military spending 50%.

About one third of the economically active population are in 'modern' sector employment. Employment in this sector grew faster than did the population between 1965 and 1975 but with the general downturn after this time it fell back even while population continued to grow. Even in a longer term perspective, employment has not kept pace with economic growth. For example, while between 1954 and 1975 manufacturing industry's output grew at an annual rate of 8.9% per annum in real terms, employment in this same sector grew by only 2.8% per annum. The breakdown of employment in the 'modern' sector in 1979 was agriculture 34%, mining 6% manufacturing 19% and services 41%.

Despite high and increasing levels of un- and under-employment, Zimbabwe suffers from a shortage of skilled labour. The Government plans to establish training programmes and to increase skills as well as to expand employment opportunities through the development and use of labour intensive technology. The new Government's policy on labour and unemployment identifies two areas where it intends to act. Firstly it will pursue its rural development programme and, secondly, it will identify ways in which it can act to increase employment opportunities in the informal sector where it feels the greatest potential for job creation exists.

### 3.2 The Manufacturing Sector

Manufacturing industry has been the most rapidly growing sector in Zimbabwe's economy in terms of output for many years. Its development has however been limited by the small domestic market in which very wide income differentials exist, even

though it has been able to export in the past to less industrialised neighbours. Industries have not developed significant economies of scale on the whole : less than 9% of all industrial units have more than 500 employees while over half have less than 50.

Manufacturing industry has developed which is based on local raw materials and it has benefitted from the well developed transport system. It is however predominantly foreign owned with 69% foreign and only 31% local capital.

Metal and metal based industries accounted for 22% of the manufacturing sector's output in 1971 - having increased from 16% in 1964 when food and beverages were the most important sub-sector. In 1974, capital and intermediate goods accounted for 67% of total sector output, with engineering playing an important role, while consumer goods manufacturing included food and beverages, clothing, furniture, consumer durables, and pharmaceuticals. Engineering and consumer goods manufacture is particularly dependent on local materials, even though machine inputs are generally imported, while the chemical industry relies on imported raw materials.

Sanctions, as mentioned, led to a significant increase in manufacturing output; they also resulted in a great diversification in products produced increasing the country's self-sufficiency in manufactured goods.

The distribution of manufacturing industry through the country has been influenced by the location of raw materials - so that much basic and processing industry is situated near sources of supply - and the location of markets - so that consumer goods manufacture is located near the urban centres. The developed transport system has offset these effects somewhat and since 1963, growth has been more rapid outside the main urban locations. In the two principal towns of Salisbury and Bulawayo are to be found enterprises which account for 73% of net output and 74% of manufacturing employment, proportions which follow closely the distribution of the urban population.

The new Government has proposed to develop economic policies which will lead to the further expansion of the manufacturing sector, concentrating on export promotion and import substitution. It also plans the geographical decentralisation of industry and its development in rural areas; part of this strategy will be to develop further the linkages between existing manufacturing industry, peasant agriculture, and small-scale industries.

The development of small-scale industry and the increased use of labour intensive technologies will not necessarily lead to a decline in productivity. In the past, net output per employee in manufacturing industry employing less than 10 people was equal to the average for all manufacturing industry; output in firms employing between 11 and 20 was 93% of the average, and in firms employing 21-50 it was 92%.

Consumer industries are the most likely to develop in Zimbabwe as capital goods industries rely generally on

economies of scale unattainable in the limited market available. In sectors such as footwear and clothing, the technology employed is largely scale neutral and therefore small enterprises situated close to their final market should be viable. Other industries too, such as building materials and agricultural implement spares, could locate near rural consumers. Small scale rural industries could increase the linkages between the agricultural and the industrial sectors.

Several programmes and organisations exist, or are planned, to promote industrial development. One of the Government's proposals is to develop Urban Growth Points outside the main centres. The Ministry of Industry and Energy Development is to undertake a 2½ year project with UNIDO for Small-Scale Rural Based Industries Support Services. There is also support for new developments available from the Zimbabwe Industry Advisory Services and the Institute of Business Management.

There are no specific provisions at present for industrial co-operatives however and this is a pity. Given the existing manufacturing base, the Government's commitment to small scale rural based labour intensive industry utilizing local materials and serving local markets, combined with the commitment to equitable distribution of the benefits and democracy in the work place, industrial co-operatives would seem to be the most advantageous choice of enterprise structure.

#### 4 INDUSTRIAL CO-OPERATIVES

##### 4.1 Co-operative Industry in Zimbabwe

Industrial and related co-operatives are underdeveloped and do not have a long tradition in Zimbabwe. There are about 9 in the country - over half of which were first registered in 1981. Activities of the industrial co-operatives include textiles and clothing (2), crafts and home industries (2), printing (1), metal (1), and building (1). Some of the co-operatives are full joint production industrial co-operatives though probably the majority exist for joint supply and marketing.

Industrial co-operatives have not been promoted by the authorities. Once they are registered they have official audits and some have received some advice and assistance, although there has been no coordinated programme of specialised support.

The co-operatives fall into two distinct categories as regards their origins. Some - usually the earlier ones - have come into existence as the result of the promotional work of independent organisations. Of these, only some have become fully independent as regards ownership and control. The others - usually those most recently registered - have been formed on the spontaneous collective initiative of their members. Most of these are so recent that it is difficult to gauge their potential. What can be said is that for the industrial

co-operatives where figures are available, many are severely undercapitalised.

As noted above, there has been a substantial growth in the number of production co-operatives in Zimbabwe since independence. Up to the present there has been no active promotional campaign and no coordinated support services. However, recent developments suggest that there is a widespread interest in co-operative production in industry, manifesting itself in certain spontaneous initiatives, which could, with encouragement and support, form the basis of a new industrial co-operative sector. The rate of growth since independence also suggests that whether or not the Government of Zimbabwe is able to undertake an active promotion and support campaign, demands for assistance from the authorities are likely to increase.

Little statistical or descriptive material on industrial and related co-operatives is available in Zimbabwe so rather than try to draw further general conclusions here, three case studies are presented in order to illustrate the potential and problems of the small industrial co-operative sector in the country.

#### 4.2 Industrial Co-operatives : Three Case Studies

##### 4.2.1 Canon Paterson Craft Centre Co-operative Society

The sculptors who formed this co-operative were originally brought together on the initiative of Canon Paterson - after whom the co-operative is named - in 1975 in order to benefit as individual artists from economies of scale in the market. When Canon Paterson died, the co-operative was formally registered with 37 members and the number grew steadily until it stood at 127 in 1981.

The members are sculptors in soapstone and wood, practicing a traditional craft and producing both traditional and modern designs. While all members produce individually, they undertake collectively, through the co-operative, to bulk buy raw materials on credit, to rent premises in which up to about 40 people can work at any one time, to run two shops in Salisbury, and to organise bulk marketing and exhibitions. Members purchase stone individually as they need it in small quantities from the co-operative and can place their products in the co-operative shops to be sold on a commission basis. The co-operative now employs three staff to manage its affairs although all the sculptor-members are self-employed.

Apart from sales through its shops, the co-operative has received bulk orders from, and has held exhibitions in Europe and South Africa. Bulk orders are however intermittent and exhibitions difficult to arrange without the kind of external assistance which was provided in 1981 for the first time by the Government. A heavy and at the same time fragile product adds to the marketing difficulties. Apart from its shops, the co-operative has not been able to develop its marketing systematically, and members' production and their sales through the co-operative are well below capacity.

The members work individually either in the co-operative or elsewhere and sell through the co-operative and on their own when they can. Significant differentials in earnings exist among members, and some sculptors have even found it necessary to take employment - as sculptors - in South Africa in order to make a living.

The co-operative itself is financially sound with steadily, if slowly, increasing sales each year - Z\$27,000 in 1980 - and a real growth in assets. Its income comes from a small monthly subscription from members and from sales of stone and finished carvings. Its capital base is partly members' share capital - Z\$142 - but largely reserves created out of retained profits.

Since the death of its sponsor, the co-operative has been self-managed with an elected committee and a qualified book-keeper. The Marketing and Co-operative Services Section audits the accounts and this is necessary as they are not well understood by all the members.

The Craft Centre Co-operative provides valuable services to its members and makes a positive contribution to employment locally. Because of its marketing problems it does not operate at a level though which is necessary to provide them all with an adequate level of income. As a well established craft supply and sale co-operative, it could be taken as a model for the development of similar ventures by other craftspeople in the country, ideally where production is for local markets and not highly dependent on the tourist trade.

#### 4.2.2 Zimbabwe Welding and Metal Work Producers Co-operative

The Metal Work co-operative is still in its infancy but perhaps illustrates well the potential for industrial co-operatives in post independence Zimbabwe. During the independence war, a number of relatively skilled independent metal workers and panel beaters came together to overcome the difficulties they had obtaining metal supplies - particularly in small quantities. After the war, they were advised that government help would be more readily forthcoming to a group than to individuals and so they registered the co-operative with 10 members.

The members hoped that as a co-operative they could develop bulk-buying, obtain larger contracts, and open a factory equipped with finishing equipment. In their few months of operation, they have managed to develop the bulk buying and have put a deposit on a municipally owned factory, but in other respects - particularly regarding production and marketing - they have not yet made any progress.

The members work in three separate locations - two in one, three in another, and five in another. They continue to work as individuals or as partners and have employees and apprentices who are not members of the co-operative. They undertake small jobs, including the manufacture of window and door frames, panel beating and welding, and sell from the front of their workshops finding their customers by word of mouth.

Membership is open to the employees and apprentices but as the co-operative insists on Z\$250 share capital to be paid on joining, these people are effectively barred. The share capital has been put to good use to purchase large quantities of materials which are then re-sold to members at normal small quantity prices. The profit so far has been retained and the funds are earmarked for the purchase of equipment for the new factory.

The co-operative is entirely run by its members and has received no help from outside except for the services of a lawyer to whom normal commercial fees have been paid. It has approached a bank for loan finance but this was refused on the grounds that the co-operative could not offer any security. Saving at its present rate, however, the co-operative should soon be in a position to equip its new factory and members plan then to begin joint production rather than continue to organise work as self-employed individuals.

The development of the Metal Work co-operative over a very short period illustrates the advantages and potential of co-operative organisation in manufacturing industry and indicates the demand that is likely to grow in Zimbabwe for support services for developments in the sector. Finance and above all assistance and technical support on the organisation of joint-production in industrial co-operatives are clearly necessary if popular initiatives of this kind are to flourish.

#### 4.2.3 Harare Weaving Centre Co-operative Society

Harare Weaving co-operative must be the longest running production co-operative in Zimbabwe. There is a ready market for its products but it operates at a very low level largely due to organisational problems.

The co-operative emerged in 1967 out of a women's group. A training centre was established with the aim of equipping women with skills which would enable them to go on to paid employment, either within the group or on an individual basis. As a training scheme the co-operative has had some success, for many ex-trainees have become successful independent business women. As a co-operative organised for joint production by its employee-members, it has largely failed with a turnover of only Z\$5,000 in 1980.

The co-operative combines training with manufacture, and undertakes spinning, weaving, carpet making, dressmaking, and other related activities. It was formally constituted as a co-operative in 1975 and has 37 members now, although only a small number are employed.

Throughout its history, the co-operative has operated under the sponsorship of a support organisation, of which several have been involved over the years. The co-operative has almost always been dependent on the support organisation for finance - member share capital is only Z\$37, for premises, equipment, and for training. At most times too, it has been dependent on the support organisation for

management, entrepreneurship, and innovation, although there have been brief periods of self-management.

The members did not make a positive decision to form a co-operative but rather had this thrust upon them. They had not had any prior business training or co-operative education and many had little understanding of the principles of co-operation or the formal organisation of a co-operative even after many years of membership.

Relations between the support organisations and the elected co-operative committee have generally been unclear with the former overshadowing the latter and perpetuating its dependency. The distinction between supportive advice and control has not been drawn and elected committees have complained of responsibility without authority. The position would not have been so bad had the support organisations kept proper financial records but this was not always the case.

In 1981, under the latest support organisation, only a few members work. One of these is on a salary, the others on piece-rates, and they work alongside trainees and sometimes even employees engaged by the support organisation itself. The support organisation is providing the working capital, it is taking all the initiatives, and the level of member participation is very low. Divisions among members now run deep, between those who are willing to work for the support organisation or who cannot do without the regular income and those who do not want to work there.

Even though financial assistance has been arranged with an international charity and a few people are receiving some training or are in employment, the future of the co-operative is very uncertain.

The lessons to be drawn from this case are that co-operatives need adequate finance to lift them above the hand to mouth level and to give them some independence, their members need business and co-operative education and must have a degree of commitment to the co-operative, and support organisations must work in such a way as to combine necessary assistance with the development of self-reliance among members.

## 5 SUMMARY AND CONCLUSIONS

### 5.1 The Present Position of Industrial Co-operatives

At the present time there are only a few industrial co-operatives in the country and the industrial and production sectors of the co-operative movement are relatively new and underdeveloped. There are however strong indications of a growing popular interest in production co-operatives of all kinds and there have been a number of spontaneous developments.

There is no coordinated programme of industrial co-operative promotion nor are there any extension or education services



available. The existing organizations with a potential interest in industrial co-operatives do not have the resources or the experience to develop such a programme on their own at the present moment. The Marketing and Co-operative Services Section located in the Ministry of Land, Resettlement and Rural Development, is hard pressed to work with new and existing co-operatives in the agricultural sector which has always been its primary concern. Other organizations - the Ministry of Industry and Energy Development and the independent Zimbabwe Industry Advisory Service and the Institute of Business Management have not to date developed a service for industrial co-operatives. Given the lack of interest under previous administrations in this form of development and the consequent lack of experience with industrial co-operatives in Zimbabwe, no specialist support is available. Support from inexperienced support organizations has not always proved successful.

The industrial co-operatives and related co-operatives which do exist are all in low capital, labour intensive sectors of industry. Even in these sectors however, members find it difficult to raise the finance necessary to launch their ventures and existing sources of credit do not cater for them. Co-operative members are on the whole inexperienced in managing small firms above the self-employed level, and one has had previous experience in the sometimes difficult area of organizing joint production co-operatives.

## 5.2 The Potential for Industrial Co-operatives in Zimbabwe

There is a great potential for the development of industrial co-operatives at the present. Zimbabwe has an existing manufacturing base and a partially developed market for industrial goods. It has a strong and rapidly growing co-operative movement with a long tradition of serving the interests of the poorer sections of the population. At the same time there are indications that there has been a growing popular interest in production co-operatives since the country's independence and a growth in the sector even without strong inducements or official promotion and encouragement.

The developments which appear to be underway are in line with the new Government's policy proposals. The Government is interested in the development of small-scale, labour intensive, rural industries; it is also committed to democracy in the workplace and the equitable distribution of economic benefits. It is not surprising that it has indicated its interest in production co-operatives in all sectors of the economy. Industrial co-operatives would appear to offer the Government a means of implementing its economic policy proposals for manufacturing industry and to provide a form of organization which would achieve the associated social developments it wishes to encourage.

For many small-scale artisans and craft workers, industrial co-operatives of the supply and sale variety could be established relatively easily. There are existing models in the country which could be followed, and the economic benefits which would accrue to individual producers from co-operative bulk purchasing and marketing have already been demonstrated.

Joint production co-operatives would be the better form for small-scale industrial development but, given the lack of experience and the attention which has to be given to this special form of industrial organization, large-scale developments of this kind will probably not occur without a co-ordinated programme of support.

### 5.3 Future Developments

No industrial co-operative projects have been planned in Zimbabwe and no financial provisions have been made for any such project to be implemented. Current trends suggest that demand for support from industrial co-operatives and people wishing to form them is likely to grow. In view of this the following guidelines for a future programme have been prepared.

An industrial co-operative development programme would have to:

- Provide for the education and training of members in such areas as business management, the theory and practice of co-operation, and the particular complexities of co-operative joint production; the programme should also be able to give members access to technical training where required;
- Develop Technical and Support Services to assist in the preparation of feasibility studies, to advise on organizational problems as they arise, and to ensure the efficient yet democratic operation of the co-operatives formed; the services would have to be developed so as to provide all necessary assistance while ensuring the steady development of members towards full self-management and self-reliance;
- Provide access to appropriate sources of finance which would ensure simultaneously that new and existing co-operatives were adequately funded while ensuring the security and proper use of scarce capital; and
- Develop an extension and publicity service in order to introduce the widest possible audience to the benefits of industrial co-operation.

In its early stages the programme would:-

- Explore and investigate the potential for industrial co-operatives, to examine manufacturing and commercial opportunities which best lend themselves to industrial co-operative development in both organizational and economic terms, and to investigate the full extent of interest in and commitment to industrial co-operation among potential members; such an exploratory stage would be necessary given the underdeveloped position of the industrial co-operative sector and the general lack of pre-programme studies;
- Examine and prepare for the appropriate involvement of voluntary agencies; such agencies have made some contribution to industrial co-operative development already in Zimbabwe and while recognizing that in some other countries voluntary agencies have proved very successful their appropriateness in the Zimbabwe context would have to be carefully considered;
- Make a study of existing co-operative law as well as company and commercial law to ensure that there is an adequate legal framework for joint-production co-operatives and, if necessary, to recommend amendments and to draft by-laws for use by individual co-operatives.

The programme would have to be organized so that there was:-

- Full involvement of all interested Ministries and departments, in particular the Ministries of Industry and Energy Development, of Manpower Planning and Development, of Youth Sport and Recreation, of Education and Culture, and of course the Marketing and Co-operative Services Section of the Ministry of Lands, Resettlement and Rural Development; broad involvement would be necessary to ensure effective co-ordination with related projects and also to ensure the resources of all possible Ministries were available to the developing sector;
- Use of expatriate technical assistance only to the extent that expertise was not already available in Zimbabwe, and for the minimum time necessary to establish the programme; and
- Emphasis on the orientation and training of Zimbabwean staff to ensure the programme's continuation and development.

An initial programme duration of 3 years should be sufficient to discover whether or not it would prove effective. Technical assistance might be considered necessary for the early exploratory and training stages and for initial implementation but could probably be dispensed with after two years.

## Appendix: List of Works Consulted

- 1980 Zimbabwe: Towards a New Order, An Economic and Social Survey, United Nations.
- 1980 "Zimbabwe comes in from the cold." Business Brief, The Economist, November 8th.
- 1980 Small Industries Advisory Service, Small Industry in Zimbabwe, Salisbury.
- 1980 Government of Zimbabwe, The Co-operative Societies Act, Chapter 193.
- 1981 Government of Zimbabwe, Report of the Director of Marketing and Co-operative Services, Ministry of Agriculture, for the year ending 31st December, 1980.
- 1981 Government of Zimbabwe. Growth with Equity: An Economic Policy Statement
- 1981 Government of Zimbabwe, Ministry of Economic Planning and Development, Zimbabwe Conference on Reconstruction and Development (ZIMCORD), Conference Documentation.

