

A NEW ERA FOR CO-OPERATION

1. The state-co-operation relationship

1.1. The role of the state

The state or the government influence the course of development in every country, in particular with the political framework which they have erected.

How important the behaviour of a government is for the development of a country can only be seen where conditions for development but above all where government intervention has led to negative results.

Commodity and factor markets are considerably hampered in developing countries in their ability to function by restrictions on free market access and obstacles to an independent pricing system and effective competition. It is the duty of the state to put things in order here and remove hindrances to development.

The position of the state in developing countries is different to the one in industrialised nations because it bears a much greater responsibility for development and not only erects the framework. Self-help organisations cannot replace governmental action. Indeed it is precisely such organisations which depend on indirect state aid, *i.e.* the state must create appropriate conditions which offer them the necessary space for action.

Some of the dependable legal and economic conditions which are prerequisites for economic development are:

- a market-orientated policy as foundation of co-operative action;
- establishment and safeguarding of law and order;
- promotion of the development of markets and marketing systems (regulation of the competitive system, etc.);
- pursuit of rural regional policies, especially the provision of a minimum of infrastructure (transport systems, energy supplies, etc.) which positively influences regional structures and developments;

- promotion of social infrastructures (health, education, etc.);
- agricultural policies and land ownership laws which encourage development;
- alignment of government development and agricultural policies to the population's needs;
- examination of the agricultural price policies;
- encouragement of agricultural and small-scale industries;
- support for the development of a financial infrastructure, including the provision of legal requirements;
- creation of a fiscal infrastructure which provides the different departments with the competencies and financial strength necessary to shape the social and material infrastructures in particular.

One of the prerequisites is that the state gives the population the opportunity to join forces in all types of co-operation, *i.e.* the state must set up working conditions which encourage co-operation. This will not always be easy due to the fact that in developing countries in particular, state intervention is usually more centralised, whereas co-operative forms of co-operation should work in a decentralised way.

Besides recognising informal groups or pre-co-operative associations, the state has to pass a co-operative law which is in line with the national situation. Such a law should be as extensive as possible, affording the manifold co-operative form, which it covers, a wide scope to form their own identity with statutes and regulations [7].

Alongside these general conditions which are specific for co-operatives, the state has to make sure that its legislative policy prevents other legal regulations from discriminating the co-operatives and gives them the possibility to act as equal partners in business and markets. This also means that co-operatives are not to be discriminated by certain laws compared to their competitors, whether from the banking sector or the commodity sector.

The co-operative development in Europe has shown how important it is not only to give government support to co-operative auditing but also to acknowledge it. For credit co-operatives this means that in accordance with the protection of creditors, the bank controlling authorities will also include co-operative credit institutes. It would, however, be sensible if the state transferred the right to carry out audits to the co-operative federations and restricted them here, too, to mere controlling functions [6; pp. 17-18].

In most developing countries the governments have been promoting the initiation and development of co-operatives. External support for such initiation and establishment of co-operative and other self-help

organisations is often provided by institutions which act as intermediaries for the government and fulfill tasks of self-help promotion institutions.

Self-help promotion institutions (SHPs) may be characterised as organisations "which stimulate social groups to engage in self-help and eventually institutionalise such activities as SHOs¹ behind which they gradually withdraw. The support of SHPs therefore is no promotional object itself but serves merely as an instrument for the development of SHOs" [5; p. 41].

The co-operatives which are to be promoted as non-governmental organisations are mostly expected to become self-reliant member-oriented self-help institutions and, thus, autonomous in setting their goals and deciding on their entrepreneurial policies.

1.2. Problems of previous co-operative policies in developing countries

General problems. Co-operatives are often judged very differently in the development policy discussion. Ideological and political considerations frequently determine the assessments. They range from total overestimation to critical rejection. But usually it is not the co-operative which fails as a co-operative business but an approach which does not take the individual traits of a co-operative as a social group and as a business organisation into consideration and does not pay attention to the fact that the surroundings are an existential framework for the co-operative. The mistake is often to be found in the attempt to transplant a type of organisation, which developed organically over a whole century in Europe, without taking the characteristics of every single developing country into account or even employ them as a tool [6; p. 13].

In addition, the fact that a business can only work efficiently if certain economic factors are observed, has so far been almost totally disregarded in the discussion. But if a co-operative cannot survive as a business, then its social effectiveness is just as endangered as the aim of representing members' interests externally.

We must notice here that a new approach for analysing business institutions and also co-operative organisations has been developed in recent years. "Profit is still an important objective for business, but in recent years other goals or objectives have come strongly to the fore: securing the largest possible turnover or market share is often deemed more important to guarantee survival in a competitive world than the classical goal of

¹ SHOs = self-help organizations.

maximising profits. But the necessity, too, of giving greater consideration to the interests of the participants in the business organisation is expressed in such goals as welfare benefits, guarantee of employment, and so forth. In progressing to a new model of business enterprise from the classical profit-maximising model, in which attention is focused on the system of objectives, management science is simply acknowledging here something that stands out in economic reality"².

As far as enterprises, *e.g.* joint stock companies (which may operate under private, public, or mixed property relationships) aim primarily at maximising profits and distributing them in the form of dividends in proportion to the shares held by the owners, there is a great contrast to the co-operative's (formal) goal of member promotion through service-orientation.

Considering this, Briscoe *et al.* (1982) point out that "The structure of a co-operative is designed to meet the needs of its members as users. The structure of a conventional business is designed to serve its capital investors". The authors give the following summary comparison of both structures:

Table 1

Comparison of Co-operatives and Conventional Business

	CO-OPERATIVES	CONVENTIONAL BUSINESS
MEMBERS	Membership is open to all users. Initial investment is minimal and is not itself a bar to membership. Members may subsequently however be required to fund the co-operative in proportion to their use of it.	Membership is open to certain investors. Current owners often only extend membership to such new investors as they see fit. New investors are required to buy their way into the business by purchasing a share at current market rates.
OWNERS	Users are owners.	Investors are owners.
CONTROL	Vested in members on equal basis.	Vested in investors in proportion to amount invested by each in the business.
BENEFITS	Members/users receive benefits in proportion to use made by them of the co-operative. The rate of interest payable on capital is limited.	Investors receive a share in the profits as return on their capital investment in proportion to amount invested by each.

Source: Briscoe, B., Grey, S., Hunt, P. *et al.*, *The Co-operative Bank of Ireland*, Centre for Co-operative Studies and University College Cork, 1982, p. 46.

² E. Dulfer, *Organization and Management of Co-operatives*, Göttingen, 1971, p. 72.

We may conclude that similarities between co-operative enterprises and capitalistic enterprises do exist, in so far as both are autonomous business undertakings which have to survive in market competition and have to strive for economic efficiency and financial viability. Differences, however, exist, since in contrast to capitalistic enterprises in the case of co-operatives, the members (as the owners) expect to be directly promoted in their roles as users of the co-operative enterprises. Consequently, co-operative enterprises are not free to undertake any business which may be most profitable for them, *i.e.* for the co-operative enterprise as such, but rather have to supply those goods and services, which are needed by individual members' economies [5; p. 39].

Co-operatives are not instruments of government. The negative image that co-operatives have in many developing countries today can chiefly be attributed to the misuse made of the <instrument> co-operative by development policies. Irrelevant goals and complex developments targeted by the government stood at the centre of co-operative promotion – not the members' objectives.

Co-operatives cannot substitute for government action, *e.g.* land reforms or tax reforms, which aim at a more equal distribution.

Co-operatives have no public assignment. It was frequently expected that co-operatives would not only gear their activities and the hope for positive effects to the interests of their members but over and above to the interests of the community as a whole, especially to those of particularly underprivileged groups. This put the co-operative into the category of a social economic institution, which is not the case. It was not understood that the co-operative promotion task was not directed to the well-being of the community and to social policy aims but clearly to the private economic needs of the members who support their own enterprise.

Many development programmes and many individual co-operatives failed because the objectives with which they were saddled were set externally.

So far, however, co-operatives have been successful when the state and non-governmental institutions only granted their support according to the principle of subsidiarity whilst recognising co-operative autonomy.

The role of the state in co-operative policy up to the present day. In contrast to the industrialised nations, the governments in developing countries assumed a leading role in organising and expanding co-operative organisations. They did not usually limit themselves to providing the necessary framework but on the contrary they considered the co-operatives

as part of their policy. As a consequence it was the governments who determined the aims of a co-operative. It was often necessary to found a co-operative in order to claim any governmental aid at all or participate in agricultural reforms.

With this type of policy the state did not limit itself to giving a necessary initial boost. It intervened massively in the nature of co-operatives and thereby perverted basic co-operative principles [6; p. 15].

The structural reforms taking place in most developing countries have forced governments to redefine their role in promoting development processes. In the context of co-operatives this implies a reduction of state involvement in co-operative development. Firstly, co-operatives are no longer artificially propped up and kept alive through financial and other support mechanisms of the state, causing a number of such co-operatives to collapse and cease operations. Secondly, it is the expressed policy of many governments to leave co-operatives to develop at their own pace and according to their own needs. Moreover the role of the Registrar has been scaled down considerably from omnipotency to skeleton functions such as the registration and liquidation of co-operatives, as well as the administration of the law. This has been accompanied by massive cuts in budget allocation for co-operative development activities resulting in retrenchment of government co-operative development personnel and reduced funds for co-operative promotion. Support functions previously carried out by the state, such as human resource development, audit, management Consultancy services and legal advice, are gradually being transferred to the private sector, including the co-operative movement itself and to NGOs.

This new policy of the state has been supplemented by making appropriate amendments to the existing co-operative legislation or by drafting new legislation altogether.

This positive trend of decreasing state control over co-operatives has been manifested in different ways in new co-operative laws. A few examples may illustrate this point [10; pp. 128-129]:

- The preamble of the draft co-operative law of Fiji and the co-operative laws of Hungary [12] and Ethiopia (for agricultural co-operatives) emphasise the autonomy of co-operatives and the subsidiary role of the state.
- The draft laws of Namibia and Kenya do away with the Registrar's role of settling disputes within and among co-operatives and delegate the audit and inspection functions to him only under certain conditions and

according to the principle of subsidiarity *i.e.* first allowing the co-operative movement itself to take care of such functions.

- Blanket tax exemptions have been replaced by selective privileges for a specified period of time (*e.g.* Co-operative Code of Philippines).
- The participation of the state and parastatals in share capital of primary co-operatives is discouraged *e.g.* in the draft Multi-State Co-operative Societies Act of India.
- Co-operative development funds previously administered by the Registrar have been transferred to national co-operative federations (*e.g.* draft co-operative law of Fiji).

In spite of such positive trends, co-operative legislation needs to be further refined as far as the role of the state is concerned. Its provisions should clearly reflect the autonomy of co-operatives and the limited role of the state in co-operative development.

The lack of training. One of the basic endogenous problems of co-operative activities in developing countries is the lack of training. It starts with the people working in the co-operatives and goes right up to management level. It affects everyone, whether a member of the board or ordinary co-operative member.

Co-operative ideology was overemphasised during training. It was not realised that co-operative activities ultimately mean doing business in the market. Therefore absolutely no long-term training systems were set up, as for example curricular training courses, *i.e.* co-ordinated training stages. Training has to be seen as an investment for the future and must be carried out at all levels.

The lack of access to resources. Another immense problem is the lacking access to resources. In some countries there is not even access to the soil. Throughout the developing countries it is common for large sections of the population to have very little capital and in particular no access to banking systems.

The problem is exacerbated by a lack of infrastructure in the countries. The effort of surmounting this physical barrier in order to enter the market intensifies the problems even more for the co-operative target group.

It is exactly for this reason that the co-operatives must create access to the financial and commodity markets. Co-operatives themselves are in a position to make bank services accessible if they mobilise the existing savings potential and transform it into loans, in particular for productive purposes [6; p. 15].

2. New fields of co-operative activities

In our time, like 130 years ago, the unsolved problems, which threaten the well-being of people but which cannot be solved by individuals acting on their own, are the appropriate areas for identifying new fields of co-operative activities.

Munkner [8; pp. 135-143] considers that the unsolved problems of our time, respectively the areas where the co-operation is needed are:

1. *the disintegration of the existing network of social security within the family system;*
2. *the unemployment;*
3. *the consumer protection;*
4. *the health services;*
5. *the protection of the environment.*

The author recommends different types of self-help co-operative organisations for each type of problem. Thus, for the social security problems self-help can be identified in the following fields:

- co-operatives for promoting social services for the elderly in their own homes (meals on wheels, ambulant health care, creating at the same time employment);
- condominiums of elderly and institutions for the aged operating on a co-operative basis;
- senior citizens' co-operatives;
- social tourism organised on co-operative lines, including services for the aged and for the handicapped.

Until now, public programmes and initiatives at the European Union level to fight unemployment have proved to be insufficient or ineffective.

Possible approaches to contribute to the solution of these problems by means of organised self-help are for instance:

- workers' productive co-operatives, self-managed enterprises, self-help projects and institutions for the promotion of such projects, which, however, until now only offer relatively few employment opportunities;
- co-operatives for the handicapped (e.g. in Poland);
- community co-operatives³;

³ Community co-operatives offer the legal and organisational framework for persons and groups interested in participating in the economic and social activities for the benefit of a community. The basic concept behind community co-operatives is to use existing potential in terms of work force of a community for the benefit of its inhabitants and thereby to generate at the same time economic and social wealth as well as jobs.

- public and communal institutions for support of projects and programmes of employment creation through self-help promotion.

The main problems in the field of consumer goods are confusion and uncertainty of consumers caused by health hazards resulting from sale of adulterated food items (like wine, edible oil, preserved fish, meat) and other consumer goods.

There are conflicting signals coming from government agencies in charge of public health, industrial producers and consumers' associations with regard to labelling of consumer goods (dates, contents) and to ecologically safe packing materials. The most sensitive area in this field are medical products.

According to Munkner [8; pp. 140-141], efforts to solve such problems by way of organised self-help and through consumer co-operatives are not new, but in this field much remains to be done:

- information of consumers and representation of consumers' interest;
- building confidence in own products and own marketing channels;
- international co-operation for the enforcement of consumers' rights.

Approaches to solve the problems in health services could be:

- organisations for preventive health services at community level (e.g. in Canada);
- consumer co-operatives for persons using health services (e.g. co-operative pharmacies, co-operative hospitals and co-operatives for the use of medical services).

Especially in the field of the environmental protection, the self-help co-operative organisations can help to solve some problems at national or international level [8; p. 142]. For instance:

- consumer co-operatives and consumer associations can insist on identifying ecologically safe products, on saving raw materials by reducing packing materials, on recycling of garbage, etc.;
- car owners associations can fight for ecologically safer cars both in term of petrol consumption or recycling;
- enterprises can produce and market devices for the use of alternative energy and rainwater;
- water user associations and forestry co-operatives can intensify their contributions to protecting the environment by keeping rivers and forests clean;
- collective farms can preserve marginal land in mountain regions.

As they did in the past, nowadays the co-operatives have to reassume their goal as innovators.

Some European Union member states and the governing bodies of the EU propagate and practice hybrid forms of self-help organisations combined with private or public institutions working for the public interest as a way to solving the specific problems of today, namely the destruction of the environment, mass unemployment, reform of the public system of health services and care for the elderly⁴.

The EU encouraged such initiatives for instance for employment creation and for the development of disadvantaged regions.

Munkner considers that in order to put such reform concepts into practice, a partnership between self-help organisations, co-operative federations, public development schemes and communal institutions for promoting self-help is required. Following co-operative tradition, such partnership combines economic and social objectives in one holistic approach, including cultural as well as technological aspects. What has been perceived for years as a public responsibility will have to be carried out in future with the help of private initiative. The state and communal authorities are called upon to create new jobs. "Instead of spending large sums on payment of unemployment benefits to people without work, while there is plenty of work which remains undone, due to shortage of staff, jobs should be created with this money. The answer is to open venues for financing <new> co-operatives and to provide the services of qualified self-help promoters" [8; p. 144].

3. Trends in co-operative development

3.1 The European Union Countries

In the EU-countries the trends are:

- to form larger co-operatives at primary level by amalgamation;
- to strengthen the position of the board of directors by giving directors more autonomy to manage the co-operative enterprises (thereby reducing the influence of the members on business policy);

⁴ Cf. for example Economic and Social Committee, European Communities: *The co-operative, mutual and non-profit sector – contributions to the building of Europe*, Brussels, 1987.

- to improve the professional qualification of board members by recruiting external professionals to serve as directors on the board;
- to strengthen and to stabilise the capital base of the co-operative enterprises (although the share capital of co-operatives is by definition variable);
- to broaden the economic basis for co-operative enterprises by carrying on business not only with members but also with non-members.

Several measures have been taken by the European lawmakers acting on the initiative of co-operative apex organisations, to give co-operative enterprises better access to more sources of capital without turning the co-operative society into a joint stock company.

We can notice that the co-operative society is moving closer to the company model, making concessions to investor-members and holders of investment certificates or participation certificates, which gives them preferred treatment over "genuine" members, as far as their capital contribution is concerned. However, despite all the adjustments made, the co-operative does not reach the vigour of the original company model with its unlimited access to the capital market.

The new instruments for strengthening the capital base of co-operatives are contained in the draft European Union Co-operative Law⁵, according to which all financial instruments valid in the state in which the European co-operatives have their registered office, may be used. Accordingly, the new forms of raising capital for co-operative enterprises could be applied even in a country where they are not permitted under national co-operative law by forming a European co-operative with a partner society in a country, where these instruments are allowed [8; p. 206].

Concluding, we consider that it is necessary, even in these EU countries, to reverse the trend to assimilate co-operative enterprises to companies by going back to the typical co-operative profile.

3.2. The Eastern and Central European Countries

In many of the developing countries a new era for co-operatives has begun with the collapse of socialist regimes, with the growing weaknesses of heavily indebted governments and with the introduction of structural adjustment programmes.

⁵ Article 50 of the draft European Statute for Co-operative Societies, 1992 SYN 388 of 5 March, 1992.

Some general problems of these countries are related to facts like the following:

- many governments can no longer afford to provide promotion, supervision and audit for a large number of co-operatives free of charge;
- the government agencies for co-operative development are often over-staffed, under-equipped and largely ineffective;
- there is a doubt that co-operatives which for decades had been operating as monopolists in planned economy, will be able to survive, if they suddenly have to work independently on a liberalised market.

A solution to these problems will be found more easily if the government would opt for a strategic withdrawal, rather than to cut its support from one day to another. But experience [8; p. 212] has shown that it is not sufficient to do this in form of a vague promise. What is required is a clear, public commitment with a fixed timetable.

The former socialist countries would like to benefit from the solidarity of the international co-operative movement in order to regain, first and foremost, the good image of co-operatives. Assistance of this kind would affect both public opinion and government agencies. By making use of a convincing armoury of interests it would be easier to convince policy-makers to provide co-operative organisations with more opportunities to become an integral part of the private sector.

In addition to technical assistance provided by Consultancy firms, co-operatives and their federations at regional and national level would welcome partner organisations from countries with a well-established co-operative movement ready to make a corporate commitment to institutional support that would continue beyond the lifetime of a project [11; p. 62]. They are in need of institutional development programmes, and of information services for co-operative members. Training for the co-operative staff and management, and for the elected officials is a key issue. This would start from basic information about co-operative democracy and progress through successful business administration to political lobbying.

Conclusions

The world-wide new vision of co-operatives being private self-help organisations of their members, enabling them to cope with problems of rapid social, economic, political and technological change, is actually the

original vision that the founder fathers of the "modern" co-operative movement had in the middle of the 19th century.

In the developing and in the former socialist countries, this concept of co-operation is new, because it means to abandon rules, which were imposed on co-operatives under colonial government or doctrinaire party rule and which turned co-operatives into development tools in the hands of government or of the ruling party.

In the European Union countries, a new era of co-operatives means that the co-operative leaders and managers should rediscover that for co-operatives their membership base can be a source of strength. A new era for the co-operatives could start by making use of the typically co-operative advantages against their competitors like:

- having a membership base with active members who are better customers than non-members;
- being locally rooted;
- having lower transaction cost due to better knowledge of local conditions and effective two-way communication between members and the co-operative management;
- offering exclusive services and incentives to members which activate the latter to use the co-operative services and facilities and which attract other persons to become members;
- being integrated into a vertical system of co-operatives at regional, national and international levels, which allow to combine the advantages of manageable size and closeness to the membership base on the one hand with the advantages of large scale organisation on the other.

So, as Munkner observed [8; p. 217], "the new era for co-operatives would be one of rediscovering the role of co-operatives as innovative member-oriented and member-controlled self-help organisations".

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