

The Role of Co-operatives in Enterprise Development

Jim Cawley, Alain Plouffe and Eric Bellows

Nexus, Number 27, December 1994

The co-operative movement is truly worldwide, spanning both industrialised and developing regions. In the US and Canada alone, co-operatives have attracted over 100million members. In China, there are 40 to 60 million co-operative members; 70 million in India; 15 million in Japan and 60 million in the former Soviet Union. Co-ops have also played a significant role in national economies, comprising for example 11 percent of gross national product (GNP) in Costa Rica; 80 percent of the sugar processing in India, and 20 percent of the coffee production in Uganda. The annual economic activity of US co-operatives is estimated at \$100 billion.

The major link between co-operatives and enterprise development is the fact that co-operatives are businesses. Although they may be more recognised for their collective nature and social benefits for members, co-ops must first and foremost operate as viable enterprises. Like micro-enterprise programmes, co-operatives make loans to members and support their entrepreneurial activities.

Unlike micro-enterprise development, this diverse and huge movement is linked throughout the world by a set of common co-operative principles, which are:

- 1) Ownership by and for the members;
- 2) Open membership (limited only by a common denominator defining the co-operative such as the workplace, trade, or community);
- 3) Democratic control;
- 4) Limited return on investment (returns come principally in the form of goods and services);
- 5) Ongoing education for members;
- 6) Co-operation among co-operatives; and
- 7) Concern for the community

In many areas, the presence of co-operatives has offered the only access to democratic decision-making. Co-operatives have provided services that would not otherwise be available. In the US for example, they were responsible for much of the rural electrification. They also provide alternatives to commercial monopolies in rural areas. Perhaps most important are their local roots. Rather than re-locating operations to maximise opportunities for profit, co-operatives invest their surpluses locally, often responding to community development needs. By attracting local savings and lending locally, credit unions offer a prime example of this co-operative advantage.

With these strengths, why do co-operatives fail so often? In several countries co-operatives have been discredited, forcing co-operative organisations to rename their efforts. Government intervention in co-operatives in much of the developing world explains most of this dysfunction. Outdated regulatory policies are part of the problem, but government intervention in co-operative operations to further their own political and economic agendas has been even more problematic. Members began to view their co-ops as agents of government policy, managed by and for someone else. Once involved, government could not let co-operatives fail as a result, co-ops developed poor business practices.

Weaknesses internal to co-operatives have also contributed to their failure. Co-operatives tend to make decisions slowly, in part due to their democratic process and the tendency towards risk aversion among the poor who are members. As a result they lose ground to private sector competitors who can move more quickly. Uncompetitive salaries and high turnover have resulted in weak management. Co-operatives are often undercapitalised, too dependent on external funding and over-extended.

Despite its shortcomings, there is great potential for renovation and innovation within the co-operative movement. Governments are disengaging, leaving co-operatives open to re-claim their principles. In responding to economic opportunities, the National Co-operative Business Association (NCBA) is focusing less on explicit co-operative development and more on identifying economic opportunities and responding to economic need, much in the same way an enterprise development programme does. A review of case studies of successful co-operative experience reveals innovative credit services, including the use of guarantee funds to link co-operatives with commercial banks, as well as new product and business development.

Source

Jim Cawley is with the National Co-operative Business Association (NCBA), Alain Plouffe is with SOCODEVI and Eric Bellows is with the Canadian Co-operative Association.

Nexus is the quarterly magazine of Small Enterprise Education and Promotion Network (SEEP). They can be contacted C/o Pact, 777 United Nations Plaza, New York, NY10017, USA or e-mail: seepny@undp.org

SOCODEVI (Societe de Co-operation pour le Developpement International) was founded in 1985 by six co-operatives and mutual aid organisations based in Quebec, Canada. Following a long-established co-operative principle that directs members to re-invest a portion of their profits in new co-operatives, these founders transformed the international arm of the existing Co-operative Council into the independent NGO - SOCODEVI. From the outset, SOCODEVI's mission has been to promote the use of the co-operative formula to harness human and financial capital for local development. In 1997 it had a staff of 19 working in 9 countries with an annual budget of \$7 million. While SOCODEVI works only in developing countries – South and Central America and French West Africa – its programmes reflect the expertise of its member co-operatives in Quebec: agriculture, insurance, forestry and finance.

Contact: Alain Plouffe, 11245 Chemin Sainte-Foy, Quebec, Canada G1S 4P2