

UNIT ONE

COOPERATION – AN INTRODUCTION

1.1. Concept of cooperatives

Dear learner, what do you understand from the term cooperation? Please lists out your ideas before directly go to reading the following section

- Let us now see the concept of Cooperation:

Cooperation means working together. The word “*Co-operation*” is derived from the Latin word “*Cooperare*” which also means working together. Co-operation, in its special sense, means the system of people voluntarily associated and working together on terms of equality to eliminate the economic exploitation they confront.

The principle of cooperation is as old as human society. What is known as cooperative effort is ultimately the group instinct in man which enables him to live together, work together and help each other in times of stress and strain. Unconsciously, the principle has always penetrated the life of human race. The history of modern civilization is , in fact, the history of cooperation, for without it social and economic progress would have been impossible.

Man’s evolution has not been competitive in terms of aggression as has been supposed by Darwin and his followers. It has been competitive in terms of cooperation. Man is now considered to be essentially cooperative rather than aggressive. “Nature,” says H.G. Wells, “is a great friend of cooperation”. Emerson said, “Cooperation has a more evolutionary force in the development of man than has the bitter competitive struggle for existence. According to E.R. Bowen, “Cooperation is the universal instrument of creation”. For instance,

‘Men and Women mingling together in love create generations’

‘Sands joining together become rocks’

Whatever be the ideologies, it is highly understood that the only way to survival and happiness for all mankind through love and cooperation.

Unlike other forms of organization, i.e., private and public enterprises, cooperatives are nothing but based on the concept of cooperation. Co-operation is important not only for individuals but also for businesses as competition of which, the evil of capitalism, could be supplanted by co-

operation. Charles Gide, a noted French Economist, “*Competition is essentially a kind of warfare which means the triumph of the strong and ruins of the weak*”.

1.2 Scope of cooperatives

1. Industry

The activities of extraction (drawing out), production, conversion, processing of products are described as industry. These products of an industry may fall under any one of the following three categories:

(a) Consumers Goods: Goods used by final consumers are called consumers goods. Example of consumer goods Edible Oils, Cloth, Jam, Television, Radio, Scooter, Motor Car, Refrigerator, Cell phone etc. come under this category.

(b) Capital Goods: Goods used in the production of other goods are described as **produces’ goods**. Steel produced by steel plant is used for fabrication into a **variety of products such as motor cars, scooters, rail Locomotive engines, ships, surgical instruments, blades, etc.** Similarly machine tools and machinery used for manufacturing other products also come under this heading. These are also called capital goods.

(c) Intermediate Goods: There are **certain materials which are the finished products of one Industry and become the intermediate products of other industries**. A few examples of this kind are the copper industry, the finished products of which are used in manufacturing Electrical Appliances, Electricity Wires, Toys, Baskets, Containers, and Buckets. Broadly speaking, industrial activities may be classified into primary and secondary which are explained in the following lines.

2. Commerce

The term commerce refers to the process of **buying and selling-wholesale; retail, import, export, enter port trade and all those activities** which facilitate or assist in such buying and selling such as storing, grading, packaging, financing, transporting, insuring, communicating, warehousing, etc. The main functions of commerce is to remove the hindrance of (i) persons through trade; (ii) place through transportation, insurance and packaging; (iii) time through warehousing and storage; and (iv) knowledge through salesmanship, advertising, etc., arising in connection with the distribution of goods and services until they reach the consumers. The concept of commerce includes two types namely: (i) Trade and (ii) Aids to trade which are explained in the following paragraphs.

(i) Trade: The term trade refers to the **sale, transfer or exchange of goods and services** and constitutes the **central activity** around which the **ancillary (additional or secondary) functions like Banking, Transportation, Insurance, Packaging, Warehousing and Advertising cluster.**

Trade may be classified into two broad categories as follows:

(a) Internal or Domestic Trade: It consists of buying and selling of goods within the boundaries of a country and the payment for the same is made in national currency either directly or through the banking system. Internal trade may be further sub-classified into wholesale trade and retail trade.

(b) International or Foreign Trade: It refers to the exchange of goods and services between two or more countries. International trade involves the use of foreign currency (called foreign exchange) ensuring the payment of the price of the exported goods and services to the domestic exporters in domestic currency, and for making payment of the price of the imported goods and services to the foreign exporter in that country's national currency (foreign exchange). To facilitate this payment, involving exchange transactions, a highly developed system of international banking under the overall control and supervision of the central bank of the concerned country (Bank of Ethiopia in our case) is involved. International trade is carried on mostly in larger quantities both on Government account and on private account involving both individuals and business houses.

(ii) Auxiliary (secondary) to Trade or Aids to Trade : As mentioned above, there are certain function such as **banking, transportation, insurance, ware-housing, advertising, etc.** which constitute the main auxiliary functions helping trade-internal and international. These auxiliary functions have been briefly discussed hereunder:

(a) Banking: Banks provide a device through which payments for goods bought and sold are made thereby facilitating the purchase and sale of goods on credit. Banks serve the useful economic function of collecting the savings of the people and business houses and making them available to those who may profitably use them. Thus, banks may be regarded as traders in money and credit.

(b) Transportation: Transport performs the function of carrying goods from producers to wholesalers, retailers, and finally customers. It provides the wheels of commerce. It has linked all parts of the world by facilitating international trade.

(c) Warehousing: There is generally a time lag between the production and consumption of

goods. This problem can be solved by storing the goods in warehouse. Storage creates time utility and removes the hindrance of time in trade. It performs the useful function of holding the goods for the period they move from one point to another. Thus, warehousing discharges the function of storing the goods both for manufacturers and traders for such time till they decide to move the goods from one point to another.

(d) Insurance: Insurance provides a cover against the loss of goods in the process of transit and storage. An insurance company performs a useful service of compensating for the loss arising from the damage caused to goods through fire, pilferage, thief and the hazards of sea, transportation and thus protects the traders from the fear of loss of goods. It charges insurance premium for the risk covered.

(e) Advertising: Advertising performs the function of bridging the information gap about the availability and uses of goods between traders and consumers. In the absence of advertising, goods would not have been sold to a widely scattered market and customers would not have come to know about many of the new products because of the paucity of time, physical-spatial distance, etc.

1.3 Objectives and Benefit of cooperatives

1.3.1 Objectives of Cooperatives

The following are the benefits of cooperative, which also include the objectives of cooperatives:

1. Economic:

- A. Economic Opportunity: It provides opportunity for every individual to develop to the highest degree as it de-emphasizes the role of capital. The de-emphasis of capital enables everyone to secure easily the membership in a society.
- B. Service at fair cost: The primary economic objectives of a cooperative society is to render economic service like credit, supply, distribution or marketing at as low cost as possible, as it does not aim at earning profits for itself.
- C. Better Price: Cooperatives offer better price to their members especially farmers as costs involved in intermediary and competitions are minimized.

- D. Economic Security: Members get an equal right of control over the collective assets of their society. Besides a cooperative association protects members from possible risks, by assuming risks collectively. And also it makes the members free from all kind of economic exploitation from middlemen.
- E. Decentralization of Economy: Cooperatives are small autonomous units, and they are spread through a country. So they lead to decentralization of economy without sacrificing the benefits of large-scale management and organization.
- F. Reduction in Economic inequality: In capitalistic economy, capital is both a source of power and a source of income. Capital owners can gain economic power and multiply wealth simply by making investments in corporate enterprises. They overcharge customers, earn profits and distribute them to their shareholders in proportion to their shareholdings. This is the root cause for concentration of wealth in a fewer hand.
- G. Control of markets: Cooperatives are able to exercise a balancing function in the free market economy. Cooperatives can end the danger of monopoly and concentration of power; it can be a safeguard against unhealthy inflation and disastrous depression.

2. Social:

- A. Training in Self-help: The chief social value of the cooperative organization is that it trains the people to take initiative in organizing, to assume responsibility in administration and direction and to create experts from their own ranks to carry on enterprises in their own interest. In simple words, it teaches people to administer their own affairs.
- B. Development of Weaker Sections: Cooperative movement is an instrument to set right the imbalances in economic development. It

can contribute to reduction of disparities of income and wealth and at any rate preventing aggravation of disparities.

- C. Social Harmony: Modern life is full of social tensions: urban Vs rural; consumer Vs producer; labour Vs capital; there are tensions with regard to religion, caste, language, race and occupation. Cooperative tends to lessen these tensions and show how they can work together on common group.
- D. Social Ethics: Cooperation fosters human values which are fundamental to spiritual way of life. For instance, IDIR, a cooperative system in Ethiopia, through which people mutually help one another at the time of need, emergency and other exigency conditions. Dishonesty, deceit and corruption of all forms are discouraged under the cooperative system.

3. Educational:

- A. It teaches the members self-reliance and team spirit.
- B. It teaches the public the philosophy of cooperation, through which, the members learn how to become economically viable with minimum resources.
- C. Cooperatives are often used as medium for campaigning and disseminating information about any new application or methods or innovation in agriculture and small scale industries, and for other social campaign for family planning and AIDS.

Benefits of Cooperative

- Greater purchasing power to consumer by lowering the price of goods.
- Greater accumulation of funds for funding future investment and expansion.
- Standardization of methods of operation and promotion of efficiency.
- Reduction in number of brands in the economy and reduction in the marketing cost.
- Simplification of distribution process and elimination of middlemen profit.
- Simplification of economic progress, and achieving economic equilibrium between supply and demand, since production is undertaken for meeting exact demand.

- Ascending of social over economic order by giving premium on moral and human values.

Chapter 2

Evolution of cooperatives

2. Cooperative development in the world

2.1 Cooperative movement in Europe

Germany (Raiffeisen and Schulze)

Herr F.W.Raiffeisen

Germany was the first country in the world to apply the principles of cooperation in the field of credit. The cooperative credit movement was started in Germany in the middle of the 19th century. At that time the economic condition of Germany was extremely deplorable and the peasantry and artisans felt crushed under the heavy weight of indebtedness. Famines were common phenomena. Usury was the order of the day. The Jews ruled over the market and the poor laborers and farmers had no way out to buy articles of their requirements from them and sell their products to them. The Jews were not only buyers and sellers but moneylenders as well. German peasantry and laborers were thus passing bad times and were almost broken.

Herr F.W. Raiffeisen (1818-1888) and Herr Franz Schulze (1809-1883) the two pioneers in this field took initiative and started introducing various measures of relief. They started their schemes at about the same time but their field of operation was entirely different. Raiffeisen tried to reduce the sufferings of the people living in the rural areas while Schulze adopted the new measures for giving relief to the people living in the urban areas. Both were convinced that the lot of people could be improved only if they were taken out of the clutches of the 'Jews'. They had realized that providing monetary help was not a permanent solution, and any time, in adverse circumstances, the people could fall a prey to the Jews. Hence, they thought that people should be made to take part effectively in any step aimed at ameliorating their condition. Self-help was considered to be the only way out.

It was Raiffeisen who contributed the maximum to the spread of the cooperative movement in Germany. He was the Mayor of Weyerbusch. He had witnessed how dishonest moneylenders created poverty-stricken farmers. His commune was in the grip of famine. He sought the support of the Government and got some grain. He appealed to the people for help. He employed bakers on wage basis for preparing breads. He also organized a 'Poor people's committee' which provided food to the poor and recovered the loan after the expiry of the specific period. In 1849, he was transferred to Flammersfield where he organized 'Union in Aid of Impoverished

Farmers'. The funds for this union were raised on the security of the rich persons of the locality. This union achieved great success and rescued a number of farmers from the jaws of greedy Jews. Raiffeisen was then transferred to Heddesdorf where he set up the 'Heddesdorf Beneficent Society' whose members were also well- to- do people. These people deposited money with the society on interest. Loans were given to deserving farmers and artisans for productive purposes. Although the society was a grand success, Raiffeisen did not like the idea that the poor people should be at the mercy of the rich. He therefore, 'enrolled as members of the society. Accordingly, a new society was constituted under the name of 'Heddesdorf Credit Union'. The memorable phrase, '**each for all and all for each**' was coined there. The movement gained momentum and in a short time many credit unions were organized. The Grand Union of Rural Cooperatives also known as 'Raiffeisen Union' was set up in 1877.

Characteristic features of the Raiffeisen Societies:

- Membership was limited to the rural masses, especially farmers and cultivators.
- Unlimited liability of the members.
- Small area of operation.
- Small loans were given to the members, which were recovered over a long period.
- Loans were given on the basis of personal security of the members and only for productive purposes. Emphasis was on the *personal character* of the borrower.
- Nominal share capital.
- Profit earning was not the motive and even under the cooperative law only a small portion of profits was distributed to the members as dividend.
- Losses and profits were transferred to the reserve fund and endowment fund. The endowment fund was indivisible.
- The management was honorary.
- Emphasis was given to moral as well as material well being.

Herr Franz Schulze:

Schulze was a judge in his native town of Delitzsch. He had seen the miserable condition of the people, especially of low means, with his own eyes. In 1849, he organized in association with his friend Dr. Bernhardt, a friendly society for Relief in sickness and later established an association of shoemakers for the purchase of raw material. In 1850, he founded the first credit association with the funds provided those who were well-off and who did not require any financial help.

Schulze was conscious of this situation and, therefore, he emphasized that no one could obtain loan from the association unless he was its member. Two years later, in 1852, Schulze founded a society at Delitzsch, which was based on cooperative principles. He obtained the required capital through the sale shares. He was a wonderful propagandist and his efforts bore fruits quickly. He published book in 1856, which contained the principles of cooperative banking as formulated by him. The number of banks started by him increased rapidly, and in 1859 organized a congress of these banks. The congress decided to set up 'The General Union of German Industrial Societies'. He was its director till his death in 1883. He was also responsible for securing from Prussia the first cooperative law in 1867, which later on was made applicable to the entire country.

Characteristics Features of the Schulze-Delitzsch Societies:

- Membership was limited to artisans, industrial workers and middle class people living in cities and towns.
- Limited liability of the members.
- Large area of operation.
- The amount of loans advanced was bigger and the period of the repayment was short.
- Loans were given on the security of tangible assets. Although loans were advanced for productive purposes, no supervision over the utilization of the loan was made.
- A strong share capital
- Profit earning was the chief motive and rate of dividend was quite high.
- Not much emphasis was given to the reserve fund. Reserve fund was used for making up losses, but it was required to be made good as soon as possible.
- The management was paid.
- The chief concern was with the material well being of the members.

England (Consumer Cooperative movement)

Robert Owen

The cooperative movement in a real sense began with Robert Owen-a factory manager, a Utopian Socialist, a pioneer of industrial cooperation and trade unionism, and an advocate of

communal living. Owen (1771-1858) envisaged villages including farmlands and small-scale industry, all operated cooperatively by the citizens of the villages who would live communally.

Owen's communities were originally conceived as a cure for unemployment but later as a way to replace private capitalism and competition with self-employment and with conditions that should provide universal happiness. He planned that such communities would consist of about 1000 people, 1500 acres of land, with common buildings and apartments for individual families; and would cost between \$200,000 and 250,000. Wealthy sympathizers of Owen's schemes were to finance such projects rather than the inhabitants of the communal villages. Such villages were attempted at New Harmony, Indiana (1825-27); and at Orbiston, Scotland; Ralahine, Ireland; and Queenswood, England. All failed.

This failure, however, did not keep Owen from preaching cooperation as the best solution to mankind's problems. Because of the stimulus of his teachings cooperative societies, labor exchanges (where handicrafts were exchanged presumably on the basis of the amount of labor involved in their making), trade unions, and magazines for workingmen started about 1820 and afterwards. Most lasted only a short time, but the seeds were sown for a later harvest of cooperatives.

Owen was an idealist more than a realist, visionary rather practical and an advocate of industrial cooperation, not of consumer distributive cooperation. Owen declared, "Profit-making was necessarily the exploitation of man by man. Profit upon price for individual gain and the accumulation of useless and unnecessary individual wealth brought in to action the lower passions of human nature; and a false estimate of all things ensued and everything became valued by its cost instead of its intrinsic worth. Cunningness and deception usurped the place of wisdom and sincerity."

As already stated, the schemes of Owen undoubtedly ended in failure; his principles and ideals have continued to inspire the cooperative movement. These principles are: (1) abolition of private profit, (2) voluntary association, (3) common ownership of the means of production, and (4) the utilization of the wealth of the community for increasing the happiness of mankind.

Owen had more grandiose ideas, encompassing agricultural and industrial production, education, housing, and commercial distribution-the whole gamut economic activity on a cooperative basis. No doubt, Owen (called by some the Father of Cooperation) believed it far more important for persons to increase their incomes, to improve their living conditions, and to free children from

debilitating factory employment than to save a few pennies on retail buying.

Dr. William King-Father of Distributive Cooperation

Dr. William King (1786-1865) of Brighton, England was a social reformer and a realistic advocate of consumer cooperation. He learned about Robert Owen and accepted much of Owen's social philosophy although he differed with him as to how to achieve its ends. King was a physician and soon became interested in improving the welfare of the working people of Brighton. To this end he became involved in organizing an Infants' School (1823), the Brighton Provident and District Society (1824), the Brighton Mechanics' Institute (1825), a Subscription Library (1826), the cooperative Benevolent Fund association, and the Brighton Cooperative Trading Association (1827). Some of this lasted only a short time.

Beginning in May 1828 and continuing for two years, Dr. King published at his own expense a small magazine called "The Cooperator". Its 28 issues contained King's important contribution to cooperative thought and were a source of inspiration, information, and instructions on cooperation in general and cooperative shop keeping in particular. King was much more realistic and far more understandable about cooperation than Owen. His plan was relatively simple. He urged the workers to:

- Save their money,
- Invest their money in their cooperative retail store,
- Pay cash for merchandise
- Operate democratically
- Publicize the cooperative movement so it might grow and become effective
- Reinvest the "profit" or net earnings in the store to enable the store to employ its own members who would make things to be sold in the store or to other buyers.

King taught that cooperatives should start small with members supplying the original capital (Owen relied on wealthy outside investors to supply the funds for large-scale operations). He also believed that cooperatives should not pay a patronage refund but the net earnings should be put in a reserve fund and used for the good of all the members so as to enlarge the cooperative's activities in production, crafts, and provide employment. He did not object to Owenite self – sustaining cooperative communities provided they were set up with the members' own capital and restricted to Christians. (King was a deeply religious man who believed that the spirit and ethics of the Gospel were those of cooperation also.)

In many respects Dr. King was more responsible for the extension of the cooperative idea and for the organization of many cooperatives than Robert Owen ever was. King was truly the “Father of Distributive Cooperation,” the inspirer of consumer’ cooperative stores in England where as Owen encouraged self-employment and communal living and started no stores. King’s little periodicals were distributed throughout England. It advocated the kind of cooperation within reach of the common man in its realistic, albeit optimistic, proposals. His was a grass –roots, bottom-up, simple scheme of organization contrasted with the far more expensive top-down plan of Robert Owen. As a result, the movement grows from a few societies in 1826 to around 300 shops in 1830- many patterned after King’s Brighton Cooperative Trading Association. (Kings ideas may also have influenced American cooperation- a Mr. William Bryan, treasurer of a cooperative at Brighton, England came to New York in 1829 and helped organized a consumers’ cooperative store in that city in 1830).

The Rochdale Pioneers

During the early period of cooperative development, one of the societies, which had sprung up in 1830s, was at Rochdale (Rochdale Friendly cooperative Society), England. Dr.King’s writings might have influenced this early Rochdalian cooperative because James Smithies, one of the leaders among the 28 Rochdalias, was inspired by King’s “The Cooperator” and showed it to the Rochdalias. A nucleus of this determined group continued to work actively for social reform. From the work of this nucleus, the cooperative movement in Great Britain was able to achieve outstanding success. The foundation of this success was not new. It was based upon the intelligent combination of various ideas, which had been tried by previous cooperatives. The failures of the past became the warning signals of later years so that firmer foundations could be laid.

A Consumers’ Cooperative Store, started in Toad Lane, Rochdale, England on 21-12-1844, and continuing to this very day, provided the organizational and operating pattern that became the prototype for other consumers’ cooperatives, both at the retail and wholesale levels, the world over.

These 28 Rochdalias had high hopes and aspirations. They hoped not only to establish a store for the sale of provisions but also to acquire homes in which their members might live; to manufacture articles that the society’s members might need as well as to provide employment; to acquire land on which to produce products needed by members; and to employ those members

out of work or those whose wages were very low. They wanted to “establish a self-supporting home colony of united interests” and to “arrange the powers of production, distribution, education and government” in the interest of its members. And finally, “ for the promotion of sobriety a temperance hotel (was) to be opened in one of the Society’s houses as soon as convenient.” This was, indeed, an ambitious program, and how different it was from the purposes which cooperatives today state as their reasons for organizing.

The business practices (later called as Rochdalian Principles), which these pioneers laid down for operating their store on Toad Lane were not individually novel but the combination of all them are essentially new. These practices were:

- Capital should be of members own providing and bear a fixed rate of interest. (Limited interest on equity capital)
- Only the purest provisions procurable should be supplied to members (to do away abominable adulteration of food).
- Full weight and measures should be given. (Provide honesty in weighing)
- Market prices should be charged, and no credit neither given nor asked. (Cash trading; no charge accounts; charge prevailing prices)
- Profits should be divided in proportion to the amount of purchases made by each member (Patronage refunds)
- The principles of “One member one Vote’ should prevail in government, and the equality of the sexes in membership (democratic control).
- Management should be in the hands of officers and a committee elected periodically by the members. (Representative government and control of the cooperative)
- A definite percentage of profit should be allotted to education. (Provision for education in cooperation)
- Frequent statements and balance sheets should be presented to the members (member information)
- No inquiry should be made in to the political and religious opinions of those who apply for membership. (Political and religious neutrality)

Note that these Rochdalian rules were devised to run a small grocery store and although they have wide application, they are not necessarily appropriate for all types of cooperatives. Such principles as democratic control by member users, limited dividends on equity capital, and operations at cost (with its corollary that if gross margins or incomes exceed costs, refunds will be made on a patronage basis) are almost universally followed. But cash trading, charging prices that other dealers charge, sending out frequent statements and balance sheets, or even setting aside a part of the new savings in an educational fund are not adhered to by all associations. The success- one might add, the phenomenal success-of the Rochdalian was by all means the shot in the arm that the cooperative movement needed in its doldrums days of the mid forties (Hungry Forties). Rochdale became the beacon for others to follow.

Sweden

The Contribution of Co-operatives to Job Creation: The Swedish Case

Poor Tradition of Worker Co-operatives

The Swedish Co-operative Development and Research Institute, Koopi, is the organization, which coordinates the development work of six national co-operative federations and represents their interests with Government by acting as a lobby. Swedish have a very poor tradition of worker co-operatives. The co-op sector has a yearly turnover of some 20 billion EURO or 8% of the GNP. Less than 1% of this overall turnover is represented by the worker co-ops. The main Figures belong to consumer and agricultural co-ops with some 8-9 billion EURO each. Swedish had two small booms of new worker co-ops in the early 70s and early 80s. Many of those unfortunately became bankrupt during the current recession.

Currently, new worker co-ops are becoming established within the public service sector - some 100 new co-ops during the last two years with some 1,000 employees. These, however, are not new jobs but replacements for former public jobs and for the co-operators themselves an alternative to unemployment or privatisation through buy-ups. A network of 20 local co-op development agencies financed through central and local government as well as the co-op business are playing an important role to stimulate and advise people to set up new co-ops.

Survival Means Change

However, the Swedish economy is undergoing a deep recession caused by both global and domestic structural reasons in the public and the private sectors. Unfortunately, the recession happened at the same time as the deregulation of internal rules and the privatisations of public

services. The present rate of unemployment is extremely high in relation to the normal level in Sweden. The recession has also forced the co-ops to a very hard and tough modernization and rationalization in each of the sectors where they are active. During the boom in the 80s, the Swedish co-ops had a strategy for buying up-market concerns to boost their own image. The consumer co-ops, for example, brought non-food retail chains in order to introduce them in city shopping malls.

The insurance co-ops went into the medical care sector, bought a medium size hospital and created some ten new centres for medical rehabilitation. The housing co-ops were pioneers in the building of high quality apartments and developing new technical and environment-friendly systems.

Most of the co-op expansion during the 80s was dependent on general market signals, consumer patterns or public regulation systems, such as income taxation reform and different forms of subsidiaries. Then the time came when the "Swedish model" has to be refreshed and modernised, the co-ops were also obliged to change in order to survive. Concentration on the core businesses is the key solution at the moment for all Swedish co-ops.

Sell-outs and reductions have replaced the strategies of the 80s. Co-ops today contribute to the escalation of the unemployment. In 1992, thousands of jobs were lost in the co-op sector, most of them through the selling off of assets and the pruning of activities.

Co-ops and Job Creation

With this perspective as a background, one might be pardoned for asking whether there is any contribution at all in the co-op sector to job creating activities? The most important answer is that the co-op sector has survived in its present state. All co-ops have survived the present recession so far, although with some financial difficulties related to the lack of capital interest and the ensuing dependence on external capital loans.

However, Swedish should recognize that co-operation is a long-term activity. There are some interesting characteristics: Firstly, the Swedish co-ops are rationalizing more than their private competitors; it means that they will stay strong and become even stronger in the future. This is a very important strategy in order to contribute to the division of social resources and new jobs in the long run. A reduction of 10% in the workforce has ensured the stability of the remaining 90% of jobs. Secondly, more and more non-members are joining co-operatives and the total membership is continually increasing. The crisis has forced the co-ops to place higher attention

on basic issues, members' fortunes in terms of price and quality, which are playing a more important role than the number of shops or new apartments. It is also interesting to notice that environmental questions take second place, after the price, as the reason why the consumers choose the co-op alternative in the retail sector. This increases the market Shares and can also create new jobs. Finally, the crisis has also forced the co-ops to modernize the decision-making and logistic structures. The federation is almost an historical phenomenon. New forms of member participation, communication and democratic influence however will follow centralisation of business decisions. The following are examples of present job-creating activities in the co-op sector:

The first one is "infra-structural co-operative development" which takes place mainly in the countryside in the north of our country. This type of development is a part of the regional policy for replacing former industrial jobs. These were often concentrated into one big industry - such as the forest or steel industry. Now small-scale co-operatives within sectors, where the producers are at the same time consumers in a local economic system, are established. In the county of Jemtland, some 100 new co-ops, providing approximately 1,000 new jobs, have been created during the last five years, in social services, handicraft, retail, transportation and so on. They are said to deliver their facilities to each other! The alternative to those 1,000 jobs should have been a new wave of emigration. This development should not have been possible without the total support of all regional and municipal administrations as well as from the banks and other financial institutions.

The second example is mentioned as "social co-operative development". The number of child day-care centres and kindergartens is still increasing. We now have more than 1,000 such co-ops with 20,000 children and 4,000 employees. These do not replace existing public services but complement them, so the number of new jobs is a net contribution.

The third example characterises as "integrated co-operative development" which is taking place mainly within the housing co-ops as an alternative to privatisation. The housing co-op, HSB, has established a special branch for social services named "HSB neighbourhood services". The name indicates that this idea is a continuing part of the core housing co-op idea. HSB is, so to say, taking over former public services such as housing for the elderly, mobile home services and primary health care. This has already created several hundred new jobs in the very short term and hopefully will escalate rapidly.

New Ideas for the Future

Finally, there will be a high number of similar examples in the future as a result of the many experiments of the new liberal theory. Mutual solutions will again be considered important. At the present time are lobbying the government and the trade unions in order to get unemployment benefits transformed into share capital in co-op societies. This system would be combined with a duty to employ young people.

One such sector for the creation of new co-op jobs is, of course, environmental systems and structures. Recycling and refilling-systems must be developed on both the industrial and household levels. Must then the consumer and housing co-ops leave this development to private multinational oligopolistic interests? Could we solve our needs by creating new co-ops and new jobs? The answer can be related to the contribution of the social economy to the creation of employment.

Points for Consideration

Finally, some remarks to the discussion: The cost difference between giving a person his notice or keeping him employed, in accordance to Swedish and Danish studies is only 1,000 to 2,000 EURO/annum.

The actors of the social economic sector to persuade their national governments and the EC-structure to make more efforts for job creation in the whole of Europe should use this fact. There are so many ideas, needs and uses for the co-ops to fulfil that there need be no conflict between the social economic sector and the government-steered public sector. Co-ops cannot take more economic responsibility than their private competitors because, as they are acting on the market on behalf of their members, they have to be competitive. Swedish believe that there is no need for another transactional network. Swedish can use the vast number of already existing networks.

2.2 Cooperative movements in North America

U.S.A

A number of consumer cooperative ventures were undertaken during the 19th century, notably by the National Grange, an organization of farmers founded in 1867, and by the Sovereigns of Industry, a secret order of workers founded in 1874. The stores and buying clubs run by these groups soon failed. Mainly Finnish and German immigrants introduced the modern consumer cooperative movement in the U.S. early in the 20th century. They established flourishing

societies in Massachusetts, Wisconsin, Minnesota, Michigan, Ohio, and other parts of the country. With these groups as a nucleus, American cooperatives grew rapidly in the period between the two world wars. Since 1920 the methods of cooperation have been applied, in successful competition with private business, in many types of enterprises, including grocery stores, bakeries, cafeterias, housing, insurance, rural electrification, banking, dry cleaning, medical service, bookstores, lumberyards, and automobile service stations.

Farm Cooperatives

The cooperative movement in the U.S. has been strongest in rural areas. Farmers have formed cooperatives for many purposes, including marketing of produce, purchasing of production and home supplies, and provision of credit. Farm marketing associations are the most important type of agricultural cooperative. Farm purchasing cooperatives rank second in importance. The modern farmer-member, who depends increasingly on off-farm products, can realize maximum savings by ordering goods through cooperatives. Regional cooperatives order some items from manufacturers and produce others in their own plants. The most important manufactures of these cooperatives are feed, fertilizer, and petroleum products; other cooperatively produced items include paint, lumber, and farm equipment. The cooperative petroleum industry is one of the most complex of the industrial enterprises; it includes oil wells, refineries, pipelines, storage facilities, and service stations.

Trends in agriculture since World War II have vastly increased the size of farmer investments in land, buildings, and equipment and, therefore, the need for farm credit. A cooperative farm-credit system satisfies this need through land banks, production credit associations, 12 district banks and 1 central bank for cooperatives, and rural credit unions, all of which furnish loans and credit to farmers. Passage by the U.S. Congress of the Farm Credit Act of 1916 created the 12 federal land banks, the first credit program established by the federal government and the forerunner of what has become the largest cooperative credit system in the world, the cooperative Farm Credit System. Initially capitalized by the federal government, the entire system has been owned by its borrowers since December 31, 1968. The Farm Credit Act of 1971 expanded the percentage of long-term loans to 85 percent of market value, broadened coverage to include rural homes owned by nonfarmers and ranchers, and allowed the production credit association to provide credit to commercial fishers and to farm-related businesses. The Farm Credit Administration, a government agency, regulates the banks and associations of the system in the public interest, and

the borrower ownership of the system has no effect on that responsibility.

In the mid-1980s, as the economic situation of the nation's farmers worsened, the Farm Credit System incurred steadily growing losses, necessitating further federal assistance. Successive farm credit legislation enacted in 1985, 1986, and 1987 provided this assistance along with authority to reorganize the system. Of 13 banks for cooperatives, 11 have since merged into the National Bank for Cooperatives (CoBank). The federal intermediate credit banks and federal land banks have also merged in each district, as have many production credit associations and federal land bank associations.

Producers' and Consumers' Cooperatives

Producers' cooperatives have been formed within the fishing industry for purposes of marketing, purchasing marine gear, providing miscellaneous services (dock maintenance, unloading), and bargaining collectively. In the retail food industry, consumer-goods societies provide goods and services for more than half a million members. Grouped around a core of supermarkets, in many areas, are substantial furniture, pharmacy, hardware, optical, and service-station operations. Most of the local consumer-goods cooperatives obtain their supplies from full-line cooperative grocery wholesale warehouses. These warehouses, in turn, buy from a central purchasing, manufacturing, and merchandising service owned by and operated for the wholesale cooperative associations throughout the United States., Canada, and Puerto Rico.

Housing cooperatives, classified with consumer goods, own some developments with individual houses that may be new or rehabilitated, but most holdings are large apartment developments. Members of the housing cooperative actually own a share of the cooperative corporation. That share gives the member the right to occupy a particular unit. The cooperative corporation, however, is the legal owner of the property, and is responsible for meeting financial obligations such as blanket mortgage payments, property taxes, and management costs. The members determine how the corporation will fulfil these responsibilities through participation in membership meetings. According to the U.S. Census Bureau, in 1990 about 630,000 housing units in cooperatives provided shelter for 1.5 million people. Housing cooperatives formed to develop housing are of two types, sales and management. The sales type constructs dwellings but dissolves on completion and sale of dwellings to individual owners; the blanket mortgage insured by the Federal Housing Administration is replaced by individual mortgages as each unit is sold. The management type continues in existence for the purpose of managing the property

after construction is completed. Most housing cooperatives today arise out of sponsoring organizations. The areas of land purchase, architectural design, financing, incorporation, and construction are too specialized for families to master on their own. Sponsoring organizations include churches, trade unions, veterans' groups, private foundations, and other cooperatives.

Cooperative Service Organizations

Credit unions, group health plans, cooperatively oriented insurance companies, and memorial (funeral) societies are some of the important types of cooperative service organizations. Credit unions act as savings institutions and provide loans at favourable rates to their members; in 1990 membership was about 55 million and total assets exceeded \$198 billion at U.S. federally insured institutions. Group health plans, including those sponsored by communities, consumers, unions, and employers and employees jointly, provide millions of people with needed health care every year.

Among other cooperative associations formed to meet special needs are rural electric and rural telephone cooperatives and day-care and cooperative schools. Student housing associations provide room and board, books, and social activities for students who belong to cooperatives in university centres. These are concentrated most heavily on the Pacific coast and in the Mid

Affiliation Systems

Efficiency and economy in the operation of cooperative enterprises are generally achieved by a system of affiliation and centralization. Local cooperatives are served and supplied by state or regional organizations. In many fields the regional bodies are united in national organizations, which, in turn, are federated into still larger national organizations, such as the American Institute of Cooperation, the National Council of Farmer Cooperatives, and the National Cooperative Business Association (NCBA). The NCBA provides a government lobby for the cooperative movement. Systems of affiliation are characteristic of the movement in all countries, and international affiliation coalesces around the International Cooperative Alliance, with headquarters in Geneva, Switzerland. In addition to cooperative effort within their own operations, cooperatives in the U.S. are assisting more cooperative development among low-income peoples at home and abroad. They have helped to form commercial fishing cooperatives, provide sewing machines, establish credit unions, set up programs for loans and life and savings insurance, found cooperative housing, and couple economic-development projects with member-education programs. Some of these programs have been aided substantially by contracts from the

U.S. government and by grants from foundations.

Canada

Saskatchewan Wheat Pool (1995)

- Saskatchewan is one of Canada's ten provinces. It has 48 million acres or 20 million hectares of cultivated land. The population is one million people with 130,000 deriving their living on farms. The main elements of the economy are agriculture, mining (potash), oil, manufacturing and service industries. Our major crops are hard red spring wheat, used for bread, durum wheat used for semolina and pasta, barley for animal feed or malting and canola, a high quality oilseed. We also produce peas, lentils, flax, oats and mustard. Precipitation ranges from 12 to 16 inches (30 to 40 cm) and production of all crops averages about 22 million tonnes per year. Eighty percent of our production is exported, the majority in unprocessed condition, which presents transportation challenge since we are 1,500 km from tidewater. Our grains and oilseeds are sold worldwide. The province has 1.1 million beef cows, which are raised on native prairie and other land not suitable for crop production. The calves go into feedlots for finishing. We produce one million hogs per year. The main meat markets are domestic, the United States and Pacific Rim countries.
- Saskatchewan Wheat Pool was formed in 1924 and we now have 60,000 members. To become a member, you must be a farmer in the Province of Saskatchewan. The organization was established to provide farmers strength and leverage in marketing their grain and to act as a voice for farmers, advocating policies favourable to the needs of agriculture and the primary producer. Initially, the organizations only commercial involvement was in grain handling and marketing through a network of country elevators and export terminals. A delegate—Board structure based on the principle of one member-one vote, governs the Pool. The Board of Directors set policies, directions and hires the Chief Executive Officer.
- **Mission:** Saskatchewan Wheat Pool's *corporate* mission states that we are an agricultural co-operative dedicated to improving the well being of members through leadership and excellence in meeting customers' needs. The key words in that statement are co-operative,

which defines our ownership control and purpose; members-our key stockholders, and customers, without whom no commercial business can exist. In our case, we have members who are customers and we have processors, importers and consumers who are customers. ***We work on behalf of members and we turn our profits back to our members but we must earn member's support and patronage every day.***

- Today, Saskatchewan Wheat Pool is a vertically integrated diversified agri-food co-operative that maintains a strong role in advancing public policy. ***Our core business remains that of marketing grains, oilseeds, special crops and livestock.*** We have and are continuing to diversify into value-added activities, which are based on our core business. The company's sales last year were \$2 billion U.S. If we include our *associated companies*, our sales were \$2.7 billion U.S. In 1994, Saskatchewan Wheat Pool and our affiliated companies processed two million tonnes of grains, oilseeds and special crops.
- These business activities are organized in various ways:
 1. Operating divisions of Saskatchewan Wheat Pool. The country elevator network and farm supply business; most of the exports terminals, the flourmill and the Western Producer are all operating divisions of Saskatchewan Wheat Pool.
 2. Partnerships and joint ventures with other co-operatives. XCAN Grain Pool Ltd, Heartland Livestock Services, Western Producer is all operating divisions of Saskatchewan Wheat Pool.
 3. Partnerships and joint ventures with public and private companies and groups of farmers.

2.3 Cooperative movements in Asia

Israel

Although agricultural output in Israel has grown steadily over the last fifty years and per-capita production kept increasing, the sector contributes today less than three percent of GNP. Compared with other parts of the economy of Israel, agriculture is small. Partly, at least, this tiny share is due to relatively low prices. Producer prices have been gradually falling, particularly since the early 1980s, in line with expanded supply and with trends in world markets. These

industry-wide changes have affected the fate of the farm sector and of co-operative agriculture. Israel has been, since its establishment in 1948 and even before that, a testing ground for institutional settings in agriculture. Approximately eighty percent of agricultural output in Israel is produced on co-operative and communal farms; the rest is produced by privately owned enterprises. Time and shifting circumstances have forced significant structural changes on co-operative agriculture.

Co-operatives

There are four major forms of agricultural co-operatives in Israel: kibbutzim, moshavim, communal moshavim, and secondary service co-operatives. Many other small co-operatives also exist. A kibbutz (pl. kibbutzim) is a village of 200-2000 people. Today there are 269 kibbutzim in Israel. Basically the kibbutz is a commune in which members work on the collective farm and in the non-farm enterprises manufacturing and services. Consumption (food, lodging, clothing, education, health care, etc.) is provided on egalitarian principles and according to needs.. Strictly speaking and by conventional definitions, the kibbutzim are not co-operatives, but they are an integral part of the institutional setting of agriculture in Israel and their story complements the examination of the development of the farm co-operatives. A moshav (pl. moshavim) is a co-operative village made of 60-120 member families. There are 411 moshavim in Israel. The farms in the moshav are private, but all farmers are members of the village co-operative and provided by it with local services: marketing, provision of inputs, finance and municipal services. A communal moshav is a village where the farm or non-farm enterprises are run collectively, kibbutz style, while families own their dwellings. Members receive equal pay for working in the village enterprises, but run their own households privately. There are 45 communal moshavim in Israel. Most of the secondary co-operatives are regional organisations, the members of which are either kibbutzim or moshavim (seldom both in the same co-op), the services they provide are produce collecting, sorting, storage, transportation, cotton ginning and financial services. One secondary co-operative, Tnuva, is the largest manufacturer of dairy products in the country.

Japan

The Central Union of Agricultural Co-operatives- A case *Objectives and Activities of JA ZENCHU*

JA ZENCHU (The Central Union of Agricultural Co-operatives) is an apex body of Japan's agricultural co-operative movement, representing the interests of Japanese farmers and their agricultural co-operative organizations (JA Group). The basic objective of JA ZENCHU is to contribute to the sound development of activities of the JA Group through formulating the common guideline and programs of their activities as well as through promoting implementations of these programs by the member organizations of the JA Group in this country.

In order to attain such objective, JA ZENCHU plays various functions, in collaboration with its members of 47 Prefectural (Regional) Unions of Agricultural Co-operatives throughout the country, including management guidance, auditing, farm policy representation and public relations activities for JAs (agricultural co-operatives) and their business federations. It also provides education and training services to staff members and officials of those organizations.

JA ZENCHU, an independent non-business organization with the membership of all JAs and most of their JA organizations in the country, is operated with membership fees paid by these member organizations.

In the international arena, JA ZENCHU is engaged in many activities for promoting friendly and cooperative relations with a number of agricultural co-operatives and farmers' organizations in the world, while serving as a member of the International Co-operative Alliance (ICA) and the International Federation of Agricultural Producers (IFAP) to represent the interests of Japanese farmers and the JA Group. It also makes continuous contributions to the development of agricultural co-operative movements in developing countries through its affiliated international training center named IDACA (the Institute for the Development of Agricultural Cooperation in Asia), which organizes various types of international seminars and workshops at Tokyo particularly for leaders of agricultural co-operatives in developing countries.

In 1963, the Institute for the Development of Agricultural Cooperation in Asia (IDACA) was established at Tokyo with funds mainly raised by agricultural co-operatives in Japan. The aim of this Institute is to provide training opportunities to leaders of agricultural co-operative organizations in developing countries for advancing their activities and thereby promoting socio-economic betterment in their rural communities. More than 4,000 government officials and

leaders of agricultural co-operatives from about 100 developing countries have participated in international seminars and workshops held at IDACA since it was founded.

JA- A Multipurpose Co-operative and its Activities

JA (Japan Agricultural Co-operative) is organized in every counties and municipalities throughout the country, based on the principle of mutual cooperation, with the purpose of protecting farming and living of its individual members. To this end, JAs are engaged in various activities including farm guidance, marketing of farm products, supplies of production inputs, credit and mutual insurance businesses, while they are referred to as "multi-purpose agricultural cooperatives".

Almost of the farmers in Japan join the respective JA as regular members, while non-farmers as associate members are increasingly affiliated with JAs to enjoy their services such as credit and mutual insurance. The number of associate members now accounts for about 40% of all the members of JAs in the country.

Farm guidance

Farm guidance is one of the JA's most important activities, which provides member farmers with guidance to improve their farm management and production technologies. Farm advisors of JAs offer such guidance particularly through producers' groups who are organized on commodity-wise basis. With a view to contributing to better farming of member farmers, these advisors promote many activities of farmers such as joint marketing of their agricultural products and joint purchases of production materials. Field technical guidance services are also offered to farmers by those advisors.

Better living guidance

JA offers better living guidance to farmers and their family members. In many cases, JA's better living advisors organize JA women's associations consisting of house wives of farm families, through which, better living advisors promote activities of those associations such as health management for member families, house budgeting, reading sessions, recreation activities, trips, and joint purchases of high quality daily necessities.

Credit business

JA's credit business is engaged in various banking activities including collection of savings, extension of loans, domestic and foreign exchange transactions, discounting of bills and government bonds transactions. The basic purpose of the JA's credit business is to contribute to

better farming and living of member families by promoting saving and mutual financing among members. The credit business sector of the JA Group, referred to as the JA Bank, constitutes the largest private community-based financial institution with 14,000 offices in the country, which has the national total of gross asset exceeding 100 trillion yen.

Mutual insurance business

JA's mutual insurance business is to offer to member families a system that protect the present and future well-being of member families, thereby guaranteeing their personal and financial security, as well as ensuring the stability of their farming and lives. JA employees called life advisers (LA), who have expert knowledge on life planning and mutual insurance, accounting some 17,000 persons in the country, carry on sales promotion of various mutual insurance contracts to meet the diversified needs in members' life cycles. The JA's mutual insurance business also contributes to the JA's welfare activities for the elderly and local traffic safety campaigns.

Marketing business

JA's marketing activities of agricultural products produced by its member farmers plays an important role in increasing their farm income. In order to get better prices of these products in the market, JA promotes many joint activities of member farmers in marketing farm products mainly through joint grading and joint shipment of products, as well as in close contact with its better farming guidance promoted by co-operative farm advisors particularly on unified standards for agricultural production and livestock feeding. Most JAs are equipped with marketing facilities including joint grading centres of farm products, temperature-controlled warehouses and grain elevators. In recent years, an increasing number of JAs have also been operating farmers' markets so as to promote the campaign of "local production and local consumption."

Supplying business

JA's purchasing activities are intended to supply member farm families with production inputs such as fertilizers, chemicals and agricultural machinery, as well as with high quality daily necessities at lower prices. In many cases, such joint purchasing activities are implemented on the basis of advanced order systems, while ZEN-NOH, the National Federation of Agricultural Co-operative Associations, collects these orders of farmers through its member JAs to bargain with respective companies for reducing their prices of commodities to be supplied to farmers. A

number of JAs also manage A-COOP chain supermarkets and gas stations for member families and local people.

Other activities

A number of JAs are engaged in diverse activities including processing business of agricultural products, promotion of members' house-renting business, and travel agency business. With a view to contributing to the respective local community, JAs are now increasingly implementing new activities such as welfare services for the elderly, assistance to operation of school orchards, supplies of foodstuffs to school lunch, and environmental protection. Furthermore, many JAs and their organizations have been participating in international cooperation activities, in which, for example, nationwide campaigns of fund raising have been successful to contribute to farmers and other people who recently suffered from the great earthquakes in Taiwan, Turkey and India.

Soviet Union

In the Soviet Union a policy of gradual and voluntary collectivisation of agriculture was adopted in 1927 to encourage food production while freeing labour and capital for industrial development. In 1929, with only 4% of farms in collectives, Stalin ordered the confiscation of peasants' land, tools, and animals; the kolkhoz [Rus.,=collective farm] replaced the family farm. The state would decide how much of what crops were to be produced, how much would be paid to the peasants for their work, and how much would go to the state at what price. Farmers who resisted were persecuted, exiled, and even killed.

By 1931, more than half of all farms had been collectivized. Low productivity and inordinate government diversion of farm production contributed to a devastating rural famine in 1932–33. Under the Collective Farm Charter (1935), individual farmers were permitted to keep small garden plots and a few animals for domestic use, and to sell surplus production in local free markets.

Collectivisation in the Soviet Union was almost complete by 1938. Successive reforms reflected the persistence of problems associated with centrally planned economies. In 1950 the government began amalgamating collective farms. The number of kolkhozy, which had peaked at 254,000, was reduced to 32,300 by 1972, while the average size of collective farms roughly tripled to approximately 7,500 acres (3,000 hectares), and the average number of households per kolkhozy increased from 75 before World War II to 340 in 1960.

In 1958 new laws abolished the government's power to requisition farm products and substituted direct state purchases at higher prices. In 1969 the Collective Farmers' Congress increased the size of private plots and instituted income guarantees and social insurance. In the 1970s, as an incentive to increase production, collective farmers were assured profits on various commodities. By this time about half of the cultivated land in the Soviet Union was in collectives; most of the rest was in state farms. As the Soviet Union and its bloc of Eastern European satellites disintegrated in the early 1990s, the collective farm faced a difficult and uncertain transition to new forms of ownership and management. In 1992, 7,000 farms chose to remain state-owned, while 9,000 chose to privatise, registering themselves as companies. Through the 1990s, Russia was forced to increase state subsidies to its collective farms, due to high inflation and price increases in supplies and equipment. In 2003, with the passage of laws permitting the sale of farmland, the foundations were laid for further changes in Russian agriculture.

Organizing a New Cooperative in Russia (A report)

There are cooperatives many types of cooperatives all over the world. Russia is no exception. In February-March 1995 I traveled to Russia's Krymsk Region, in my capacity as Cooperative Development and Marketing Specialist. There, I worked with management and leadership from the Sotrudnichestvo Farmers Co-op and the new Processing Market Cooperative. The two hoped to set up a working alliance.

Because top quality is a major determining factor in market demand, vegetables must be processed at the pick of their flavour. But machine breakdowns slowed processing and consequently quality of product had been suffering. On my trip, I studied the feasibility of transforming a local canning joint stock company into a farmer-owned (controlled) cooperative to better serve producer needs and be more creative in its product assortment and marketing approach..

A more timely harvest, delivery and processing of fresh produce will in turn improve market demand in current retail outlets in Krymsk, Krasnodar and Moscow for both fresh as well as processed products. Finally, we hope to increase the international market for the world-famous products of Russia's Krymsk region.

The Sotrudnichestvo Farmers Co-op is helping youth club members ("New Generation in Agribusiness") start their own projects to gain experience in the economics of farming. The youth club is also working to open opportunities in retail outlets. Finally, the co-op provides

some financial assistance to youth club members who arrange exchange with Future Farmers of America (FFA) members.

2.4 Evolution and Development of Cooperative in Ethiopia

The evolution of formal cooperatives can be traced through three explicit phases: the period under the Imperial Regime; the period after the revolution (1974-91); and the period after the 1991 counter-revolution. Traditional ways of cooperation among members of households prevailed since the old times of the civilization in Mesopotamia. People successfully mobilized themselves to deal with specific issues, be they problems or ceremonies. With time formal approaches to cooperation were considered by the regimes of the different times.

History of Cooperatives in Ethiopia

The Ethiopian cooperative movement can be divided into three phases:

1. Cooperative during the Imperial Government
2. Cooperatives during the Derg Regime
3. Cooperatives at present

2.4.1 Cooperatives during the Imperial Government

Cooperatives flourished even during the era when Ethiopia was kingdom. People were encouraged to form cooperatives to solve specific problems. Initially, cooperatives did not penetrate the rural community, and thus the rural mass did not benefit much from cooperatives.

In 1960, the Government of Ethiopia issued a “Farm Workers Cooperative Decree no.44” that aimed at organizing the landless people into agricultural cooperatives. The Ministry of National community Development was charged with the responsibility of ensuring systematic cooperative promotion and development. Various efforts were made to ensuring systematic cooperative promotion and development. Various efforts were made to establish farm workers’ and service cooperatives for the settlement for the landless or evicted tenants to engage in collective farming on government land. These efforts, however, provided futile mainly because there was no genuine efforts to transform the land tenure system. What is more, there were no trained cooperative managers in the country then. The efforts were therefore unsuccessful.

In 1966, the Cooperatives Societies Proclamation no. 241 was issued. It was only after this decree that cooperatives began to emerge in Ethiopia. Efforts to mobilize people were intensified and rationalized. This was an encouraging start bearing in mind the fruitless initial efforts. The

first cooperatives were mainly formed to provide inputs, to process, and to facilitate the marketing of crops and products. Primary cooperative societies formed unions, which in some cases exported directly to the world market.

The mid -1960s saw the establishment of savings and credit cooperative societies in Ethiopia, pioneered by the employees of Ethiopian Artiness in 1964. By 1973, the societies formed their own national apex body known as Ethiopian Thrift and Credit Cooperative Societies with 6,247 members and savings amounting to USD 627,752. Spontaneous as they were, the societies flourished. The following chart illustrates the situation as regards established cooperatives in Ethiopia by 1971/72:

Table 1

Type of cooperatives	Number	Membership	Business turnover
Agriculture	50	10,636	6,009,100 Birr*
Coffee	17	4,028	1,778,800 Birr
Consumers	7	1,647	124,400 Birr
Weavers	4	780	n/a
Others	22	12,187	147,600 Birr

*Beginning of 1995, 1 USD was equivalent to about 6.5 Ethiopian Birr

2.4.2 Cooperatives under the Derg Regime (1974-91)

The 1974 Ethiopian revolution resulted in a completely different type of regime in the country from what had been expected by most of the population the Military Government issued a land reform proclamation and a proclamation on peasant Associations. All the efforts made to restructure the cooperative movement based on these proclamations were essentially geared towards direct control of cooperatives and turning them into government and political rather than socio-economic development instruments. The associations were declared to be the lowest level of the administrative hierarchy and formed the basis for public administration as well as for the then running party. Within three years, over 20,565 such associations were formed with a membership of about 5.9million.

The associations were under a mass organization of the ruling party known as all Ethiopian peasant Association. Between 3 and 4 associations were deemed to form a **service cooperative** providing services to members of the associations- such as grain marketing, inputs supply, credit, tractors, transport service and consumer goods supply. They were considered interim institutions

for future massive socialist rural economic infrastructures and systems. In the process, individual farmers (3 or more), were therefore encouraged to form **producer cooperatives** with collective ownership and production. It was planned that sooner than later an era of total abolition of private plots would dawn. By 1990 there were already 3,316 producer cooperatives with 290,000 members and a net capital of Birr 199m.

In addition to those mentioned above, there were also other associations (2,666) and service cooperatives (225), which were in the coffee production sector of Ethiopia. In 1989/90 they marketed over 17,894 tons of washed coffee (73 % of Ethiopian coffee). The Derg Regime also promoted service and producer cooperatives in the handicraft and industrial sectors. By 1991, these consisted of the following:

Table 2

Type of Cooperatives	Number	Membership
Tailoring	322	7,734
Weaving	352	34,281
Metal work	11	284
Wood work	12	132
Carpet making	4	200
Knitting	13	3,249
Bakery	1	39
Candy making	2	43
Embroidery	2	124
Total	719	46,086

Consumer cooperatives were promoted by the Derg- Regime and were called Kebele consumer shops. These were mainly meant to facilitate the supply and distribution of basic consumer goods to the local urban rural communities. Apparently leaders of these shops were appointed by the ruling party. The revolution also brought the abolition of private renting and the sale of houses and apartments. Cooperative for dealing with housing issues were formed which were threefold:

- Regular housing cooperatives formed by members with regular, medium- level income;
- Headed self – help cooperatives formed by people with regular, low – level income;
- Pure self- help cooperatives formed by members with no regular income.

The result was that by 1992, 208 housing cooperatives had already constructed 5,640 houses; 248 cooperatives then had 7,190 houses under construction; and 504 had not started constructing houses yet. It should be noted that about 90% of the housing cooperatives were based in Addis Ababa, a city of about then 2m people, and the rest were in other urban centers.

In the savings and credit cooperatives sector, the Derg-Regime dealt a blow by abolishing the national apex ENTACCS. All the same, the societies continued to mushroom. The regime maintained, however, that such cooperatives should be formed at work places only. By 1990/91 there were 495 credit unions with a membership of 119,799, with total savings amounting to ETB 79million, assets totaling ETB 102million, and outstanding loans of Birr 80 million.

As it can be noted, the Derg-Regime promoted and developed cooperative with centralized direction to satisfy its own political goals. Autonomy, voluntary association, and member participation in decision in decision- making was marginalized. This hampered the natural growth of cooperatives and limited the sense of belonging and commitment by the members.

2.4.3 Cooperatives at Present

In 1990, one of the elements of the adopted **Economic Reform Program [ERP]** directly concerned the organization and development of cooperatives. The quota purchase scheme was abolished by the ERP and the organization of cooperatives was stipulated to be based on absolute democratic decisions of the members. This resulted in the following:

- Within 3 months after the pronouncement of the ERP, 95% of all producer cooperatives were dismantled; and
- Grain marketing by service cooperatives stopped almost completely.

The thousands of producer cooperatives (PCs) and service cooperatives (SCs) have been trimmed to only about 100 PCs and 2,000 SCs. While PAS are not abolished, farmers do not need to become first members of PAs before becoming members of SCs. The coffee business was also affected; the level of coffee marketed by SCs had dropped to only 6,180 tons by 1991/92. Auctions have now been allowed to open up again in Addis Ababa (for coffee marketing). Industrial cooperatives now have to struggle to get inputs and look for different markets. The Kebele shops have almost all closed down. Savings and credit societies have not been affected. Housing Cooperatives have been negatively affected because of government decision:

- To abolish subsidized interest rates (4.5% p.a . formerly and now over 12%) to members of housing cooperatives; and
- To abolish subsidies on building materials for members of housing cooperatives.

The Ethiopian cooperative movement thus, after passing through the three phases, finds itself in a totally new and challenging position. New developmental strategies have to be conserved and implemented if at all systematic cooperative development is to evolve.

The country that is almost moved from the socialism to a mixed form of economy has created favourable conditions for the development of cooperatives. The policy reforms revolve around the greater use of the marketing quotas have been removed in agriculture; security of land tenure is being provided; the capital ceiling on private investment has been removed; small scale producers are being encouraged; and competition has been induced to stimulate better quality of Products and services lower prices.

Around the beginning of the transitional period, there were 6328 different types of cooperative societies. Out of this number, there were 3,686 agricultural, 852 artisan producers, 497 savings, and 1293 housing cooperative societies. However, they were weakened due to the fact that they could not benefit their members and individuals embezzled their properties. During the last five years of 1990s, 1,281 agricultural cooperative societies have been rehabilitated through educating members, improving their management competence and reconstructing the institutions. These activities were carried out in line with Proclamation No. 85/94 and 147/98.

Based on the proclamations and international principles, i.e. full consent of the members and solution to common problems, the offices that were established in the administrative regions have formed different types of new cooperative societies. Accordingly, a total of 602 new cooperative societies consisting of 524 agricultural, 38 savings and credit, 2 artisans producers, 22 housing, and 2 consumers cooperatives had been organised in the above-mentioned period.

Cooperatives are now somewhat good in number after an increase, engaging fully in their respective activities in almost all regions. For instance, as of June 2004, there are 1034 cooperatives in S.N.N.P. Region, most of which are either multi-commodity agricultural cooperatives or multi-purpose agricultural cooperatives. Next to agricultural cooperatives, the savings and credit and housing cooperatives have been dominating in the region.

As of 2004, there are 8,009 different type cooperative societies in Ethiopia with a membership of 3,928,577 members, which includes female membership of 514,897. The total capital of these cooperatives has been raised to ETB316 million. Secondary cooperatives have also been increasing which account for 55 at present with member cooperatives of 789. The total capital that these unions have accumulated as of 2004 is ETB 146.5 millions.

These societies are providing services such as input supply, credit, grain and coffee marketing, consumer goods, savings, agricultural implements etc., Moreover, they are carrying out activities such as the production of handicrafts materials, sugar cane, fish, milk etc. The overall growth and performance of these societies have been noticed handsome except missing a higher degree professionalism. However, it is an opportunity available in the hands of government, cooperative leaders and the people of the country to turn cooperatives into real people's organizations and allow better use of locally mobilized resources.

Summary

The Ethiopian cooperative movement can be divided into three phases:

4. Cooperative during the Imperial Government
5. Cooperatives during the Derg Regime
6. Cooperatives at present

In 1966, **the Cooperatives Societies Proclamation no. 241** was issued. It was only after this decree that cooperatives began to emerge in Ethiopia. Efforts to mobilize people were intensified and rationalized. This was an encouraging start bearing in mind the fruitless initial efforts.

The Derg-Regime promoted and developed cooperative with centralized direction to satisfy its own political goals. Autonomy, voluntary association, and member participation in decision in decision- making was marginalized. This hampered the natural growth of cooperatives and limited the sense of belonging and commitment by the members

Cooperatives are now somewhat good in number after an increase, engaging fully in their respective activities in almost all regions

CHAPTER THREE

COOPERATIVE PRINCIPLES

3.1. Meaning

The term “principle”, derived from the Latin word “Principium” meaning “basis” has different meanings: the primary idea, a certain thesis, a rule of an organization. The I.C.A. Commission (1966) on Cooperative Principles faced the problem of defining the term “principle”. The working definition adopted by the Commission was: “those practices which are essential, that is, absolutely indispensable to the achievement of the Cooperative Movement’s purpose”. How far is it justifiable to identify cooperative principles with any particular practice? Practices vary according to social and economic conditions of countries. If cooperative principles are not practices, what are they? According to W.P. Watkins, the former Director of the ICA, “They are the ideas, inherent in cooperation, which determine what it is as a mode of action they are the ideas which is the purpose of cooperative activity to realize”. They are ideas accepted as invariable guides to policy or conduct or action of any kind. The ideas remain constant; the practices vary in response to need and circumstances. So the term “principles” means ideas, which determine the character of Cooperation as a form of association in contrast with practical rules and methods, which changes in competitive situation.

The principles of cooperation arise out of the characteristic features of cooperation. Cooperation is a form of economic organization. It is voluntary and democratic association of human beings, based on equality (of control and opportunity) and equity (of distribution of surplus), for the promotion of their interests. Solidarity, democratic control, mutuality or self-help through mutual help, voluntarism, equality and service motive are its characteristic features. The principles of cooperation are based on these features.

Structural and functional

Professor Henzler of Germany classifies cooperative principles into structural and functional principles. Principles like the principle of democratic control, which are meant to assure a purposeful structure of the cooperative, may be regarded as structural principles. “Principles governing cooperative management, price and credit policy and the appropriation of surplus, that is, principles which determine the methods or standards of cooperative procedure” may be called

functional principles. While the structural principles are common to all types of cooperatives, different functional principles apply to different types of cooperatives.

3.2 Evolution of Cooperative Principles

3.2.1. Introduction

The idea of cooperation is older than man himself. But cooperation, as a form of economic organization, is of recent origin.

The early nineteenth century was a period of considerable stress and strain in England. Great changes took place in the economic system with consequent social effects. The introduction of the steam engine and the mechanization of processes revolutionized industry. Factory system of production came into existence. The society became divided into two classes capitalist – employers and wage-earning workers. A blind capitalistic system of economy emerged. It was a system based on profit-motive. It promoted social evils, selfishness and exploitation of man by man. “The developing capitalism devoured greedily and indiscriminately the lives of men, women boys and girls” and squeezed “the life juices of men, women and children into the brimming vats of industrialism.”

The evils of the capitalistic system made the social thinkers like Robert Owen (1771-1858) of England and Charles Fourier (1772-1837) of France to think of an alternative better system of economy. They visualized an ideal form of society based on cooperation and mutual help instead of competition and exploitation of man by man. Though these historic figures did not trace in detail the forms that cooperation was to take, they set out its fundamental principles: association, voluntary nature of cooperation, democratic government of the enterprise and social motive.

Their followers, being inspired by their ideals and doctrines, shaped the cooperative form of enterprise. For instance, Dr. William King (1786-1865) of England gave practical guidance to translate Owen’s ideas into action. Under his inspiration, many cooperative stores were organized by workers to escape from the exploitation of “truck-shops” of factories and private-trader-“badgers”. While Owen’s ideals were more exalted and millennial, Dr. King’s teachings were more practical. Thus he “was nearer than Owen to the practical ideas of Rochdale Cooperation which came later”.

The dream of Owen, viz., creation of a new moral world based on cooperation did not become a

reality, but cooperation as a new and noble form of economic organization with a social philosophy of high order and a moral content has come to stay. Many cooperatives were organised in the 1830s and almost all of them failed. And finally a society organised by a group of 28 workers of Rochdale, an industrial town in England proved a successful venture. The single factor in their success was the way in which they absorbed the lessons of the previous failures

3.2.2. Rochdale principles

These Pioneers, registered their society “The Rochdale society of Equitable Pioneers” on 24 October 1844, and began business on 21 December 1844. This is said to be the true beginning of the modern cooperative movement. The ideas of the Rochdale Pioneers set forth in the rules of their society, made up a body of Principles, popularly known as the Rochdale Principles that have since inspired the Cooperative Movement throughout the world. These ideas were: democratic control, open membership, limited interest on capital, patronage dividend, cash trading, sale of pure and unadulterated goods, education of the members and political and religious neutrality. None of these ideas was individually novel; but their combination was essentially new. This was the originality of the pioneers.

These Pioneers organized their society as a revolt against the unscrupulous practices of the truck-shops of their employers and the petty capitalist groceries. “The rules of their association, therefore, have a relevance to the circumstances in which they were working and specific purpose for which they had to operate. “They went on modifying rules for survival and progress. In the course of decades, as social historians began to look back on the performance and achievements of the Pioneers, they set out in their writing what they considered to be essential Rochdale Principles. The selection and particular formulations were of the historians’ making.

3.2.3. ICA 1937 Committee on cooperative principles

In course of time, cooperative movement spread to various countries such as Germany, Italy, Denmark, etc., and various forms of cooperation were developed. How far the Rochdale Principles, which were evolved in the 1840s for Consumers’ Cooperative, were applicable in the present time and to various other forms of cooperation such as producers’ societies, credit societies and industrial cooperatives? This question received the attention of the International Cooperative Alliance (I.C.A.). At the Vienna Congress of the I.C.A., in 1930, the Central

Committee was asked to appoint a Special Committee to examine the conditions in which the Rochdale Principles were applied in the member countries and to state these principles in their final form. This special Committee was formed in 1934 at the London Congress of the I.C.A. The Paris Congress of the I.C.A. approved its report entitled “The Present Application of the Rochdale Principles of Cooperation” in 1937.

This Special Committee came to the conclusion that the following seven principles may be considered as the essential principles of the Rochdale Pioneers:

- Open membership
- Democratic control
- Distribution of the surplus to the members in proportion to their transactions
- Limited interest on capital
- Political and religious neutrality
- Cash trading and
- Promotion of education

The eighth principle, viz., the supply of pure unadulterated goods was omitted, as this could be taken for granted in these days in view of the adoption of protective legislation in various countries. Nevertheless cooperatives have to continue to make a contribution in dealing with the problem of adulteration and unfair weights and measures, and in order to do this the ethics of their business must be invariably higher than that the law requires.

The Committee felt that there should be some discrimination in the importance to be attached to the above seven principles in deciding the essential character of a cooperative society. It, therefore, suggested, that the first four principles (open membership, democratic control, distribution of the surplus in proportion to their transactions, limited interest on capital) ought to be regarded as **obligatory** and their observance as essential to the cooperative character of any society. In the opinion of the committee, the remaining three Principles, “While undoubtedly part of the Rochdale System, are, however, not a condition for membership of the I.C.A.” The Committee preferred to regard these three practices as “essential methods of action and organization rather than standards, the non-observance of which would destroy the cooperative character of a society.”

3.2.4. Conditions change

Since 1937 much water has flowed under the bridge. The socio-economic and political conditions of various nations changed and the cooperatives had to adapt themselves to the changing situations. Under the stress of a revolution in distributive trade, many cooperative organization encountered difficulties in maintaining their traditional practices. In the developing regions, the young cooperative movements had still to reach their full capacity to implement the movement's principles and apply them in their special economic and social setting.

Further, important changes have taken place in technology and management. The world appears to stand on the threshold of a new and more comprehensive industrial revolution. The cooperatives should, therefore, expand their scope from mere defence of group interests to a positive contribution to the welfare of their members in an expanding economic system. The movement cannot remain content with the familiar organization of the past but new patterns have become necessary. Accordingly vast structural changes involving consolidation, concentration and integration are taking place in a number of cooperative movements. In this context, the need for guidance in matters of principles-the need to distinguish, which principles are essential and must be maintained, which may be varied, discarded or added according to circumstances-was keenly felt. Thus the need for a review of the principles of Cooperation was recognised. This matter was, therefore, discussed at the Twenty-second Congress of the I.C.A., in 1963.

3.2.5. ICA 1966 Committee on Cooperative Principles

In the above Congress, a resolution was adopted which provided for the appointment of a Commission to study cooperative principles. In accordance with this resolution, the Central Committee of the I.C.A. appointed in 1964 a Commission on Cooperative Principles. This Commission was empowered to study which of the principles of the Rochdale Pioneers retained their importance at the present time and which should be changed, and how, in order to contribute in the best manner to the fulfillment of the tasks of the cooperative movement; and finally, which of the principles had lost their importance and should be substituted by others. The Commission was also empowered to formulate new principles, if necessary. This Commission reported to the Twenty-third Congress of the I.C.A. held at Vienna in 1966 and the Congress accepted the report.

This commission reaffirmed the first four principles in a fuller form, adopted “the promotion of Cooperative Education” as the fifth principle and added a new principle-principle of growth: “Cooperation among cooperatives”. Thus the Commission considered the following “as essential to genuine and effective cooperative practice both at the present time and in the future as far as that can be foreseen.”

1. Voluntary and open membership,
2. Democratic administration,
3. Limited interest on Capital,
4. Distribution of the surplus to the members in proportion to their transactions,
5. Cooperative education and
6. Cooperation among cooperatives.

These are general principles, which should be observed by cooperatives of all types and in all social and economic systems. The Commission did not draw a distinction of degree of validity between these essential principles, and so did not give, like the 1937 Committee, some principles a higher priority than others. To quote the Commission, “All possess equal authority and must be equally observed.” They form a system and are inseparable. They should be observed in their entirety by all Cooperatives.”

3.2.6. ICA 1995 Cooperative Principles

There has been a concern among Cooperators in recent years that there has been serious erosion in the values of cooperation and the same was echoed in ICA Tokyo congress held in 1992. The congress therefore recommenced the ICA Executive Committee to initiate the process to review the current ICA Cooperative Principles as amended in 1966 and make recommendation for the possible change. Dr Ian Macpherson was asked to coordinate the review of Cooperative principles and he submitted the draft including the statement of Cooperative identity in 1994, which was approved by ICA General Assembly in Manchester in September 1995. Following is the text:

Definition

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Values

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Principles

1st Principle: Voluntary and Open Membership

Cooperatives are voluntary organizations; open to all persons able to use their services and willing to accept the responsibilities to membership, without gender, social, political, or religious discrimination.

2nd Principle: Democratic Member control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote), and cooperatives at other levels are also organized in a democratic manner.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of the assets is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5th Principle: Education, Training and Information

Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public-particularly young people and opinion leaders-about the nature and benefits of cooperation.

6th Principle: Cooperation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

2.3. Analysis of the cooperative principles (ICA 1995)

Cooperative Principles are more than commandments; they are also guidelines for judging behavior and for making decisions. It is not enough to ask if a cooperative is following the letter of the principles; it is important to know if it is following their spirit, if the vision each principle affords, individually and collectively, ingrained in the daily activities of the cooperative.

The principles that form the heart of cooperatives are not independent of each other. They subtly linked; when one is ignored, all are diminished. Cooperatives should not be judged exclusively on the basis of any one principle; rather, they should be evaluated on how well they adhere to the principles in their entirety.

1. The “Voluntary” and Open Membership Principle:

Voluntary principle implies that people cannot be made to be cooperators; they must be given the opportunity to study and understand the values for which cooperatives stand. They must be allowed to participate freely. If the need for membership is raised, such members should be involved so that they develop voluntary attitude.

Open Membership means that cooperative is open to all persons who need and are able to use the services of cooperatives and willing to accept the responsibilities of membership without any artificial discrimination. But where cooperatives are for specific purpose, e.g., housing, there may be understandable and acceptable reasons why cooperative may impose a limit on membership. “Willing to accept responsibilities of membership,” reminds members that they

have obligations to their cooperative.

2. Democratic Member Control Principle:

Within cooperatives “democracy” includes considerations of rights and responsibilities. It means fostering the spirit of democracy within cooperatives. “Controlled by the members” mean members participating in setting the policies and making decisions. It means members ultimately control their cooperatives and they do so in democratic manner. “Accountable to membership” phrase reminds elected representatives that they hold their office in trust of the immediate and long-term benefits of members. Cooperatives “belong to members” and not to elected officials. Elected officials are accountable to members. They are Trustees on behalf of members.

Member control also prohibits a non-member becoming office bearer through nomination to the Board by the Government or through process of cooption.

3. Member Economic Participation Principle:

In cooperative, capital is servant and not master of organization. Cooperatives exist to serve the needs of members, this principle describes how members both invest in their cooperatives and decide how to allocate surpluses. Members can contribute capital in three ways Viz., (1) Share capital, (2) Reserves; which is owned collectively, (3) Depositing their part of their dividend and on special request for specific activity.

4. Autonomy and Independence Principle:

Cooperatives in all parts of the world are very much affected by their relationship with the state. Government determines the legislative framework within which cooperatives may function. In their taxation, economics and social policies, governments may be helpful or harmful in how they relate to cooperatives. For that reason all cooperatives must be vigilant in developing open, clear relationship with governments. When cooperatives enter into agreement with organizations, they must retain their freedom ultimately to control their future.

5. Educations, Training and Information Principle:

The Principle emphasizes the vital importance played by education and training within cooperatives. Education means more than just distributing information or encouraging patronage, it means engaging the minds of members, elected leaders, managers and employees to comprehend fully the complexities and richness of cooperative thought and action. Training means making sure that all those who are associated with cooperatives have the skills they

require in order to carry out their responsibilities effectively. Education and Training are also important, because they provide excellent opportunities where by cooperative leaders can understand the needs of their membership. They should be conducted in such a way that they continuously access the activities of the cooperatives and suggest ways to improve or to provide new services. A cooperative that encourages effective two-way communication between its members and leaders, while operative in an effective manner, can rarely fail.

The principle ends by recognizing that cooperatives have a particular responsibility to inform young people and opinion leaders-politicians, public servants, media representatives and educators, about the nature and benefits of cooperation.

6. Cooperation among Cooperatives Principle:

Cooperatives must also recognize the necessity of strengthening their support organizations and activities. It is crucially important for different kinds of cooperatives to join together when speaking to government or promoting the cooperative way to the public. In order to build an integrated cooperative system it is necessary that cooperatives should cooperate among themselves. They should not compete with their own constituent members.

7. Concern for Community Principle:

Cooperatives are organizations that generally exist for the benefit of their members. Cooperatives have special responsibility to ensure that the development of their community-economically, socially and culturally- is sustained. They have the responsibility to work steadily, for the environmental protection of these communities. It is up to the members, though, to decide how deep and in what specific ways a cooperative should make its contributions to their community.

Explanation for the Statement on Cooperative Values

(i) Self-help: It means one should try to solve his problems with his own efforts, means and resources available. But self-help succeeds only up to a point. Therefore it needs joint- efforts with those who have the same problem. They can pool small resources and means, so that they become more potential. In-group individual becomes more powerful, he learns, with experience of other fellow men, this becomes mutual-self-help. Self-help and mutual-help promote cooperative spirit and key to success of cooperatives.

(ii) Self-responsibility: coupled with self-help and mutual self- help is the value of self-

responsibility. Every office-bearer, member of Board of Directors or management must take responsibility for his personal actions, for the activity as a whole and for its impact on society. Similarly each member of cooperative should realize and accept his responsibility towards cooperative and commit himself to it. A cooperative can achieve its object and progress only when everyone involved in its functioning, including employees, feel his accountability and discharge his responsibility with commitment, dedication and sincerity of purpose. This is what the Rochdale Pioneers demonstrated and they succeeded.

(iii) Democracy: Democracy is a basic value of cooperatives. In the context of cooperatives, the essence of democracy is “*conscious decision*” based on “*freewill*”. “*Conscious decision*” means understanding the logic or rationale of taking decisions and be aware of the possible consequences of the decisions and their impact on individual and institution. “*Freewill*” means no forcing of the decision from outside. “*Participation*” is an integral aspect of democracy. Participation includes attending general body/board meetings, actively giving one’s opinion on various matters and issues affecting the society. It also encompasses participation in strengthening internal finance and business.

(iv) Equality: Equality means equal right and opportunities, right of participation, a right to be informed, a right to be heard, a right to be involved in the decision making. Members are to be associated as equal as possible, without any kind of discrimination of gender, religion, caste, creed, race, amount of share capital contribution, deposits, political affiliation etc. That is why one member one vote is the principle, which establishes equality.

(v) Equity: It refers to how members are treated within a cooperative. It means that members should be treated equal in how they are rewarded for their participation in the cooperative normally through patronage dividends, allocations to capital reserves in their name or reductions in charges. Equity ensures social justice.

(vi) Solidarity: It is an important base of cooperatives. Solidarity is collectivity. Management have the responsibility to ensure that all members are treated as fairly as possible, that the general interest is always kept in mind, that there is consistent effort to deal with employees (members or non-members), as well as the non-members. It also means that a cooperative has a responsibility for the collective interest of its members. It indicates that society’s financial and social assets belong to the group, being the result of joint efforts and participation. Solidarity also means that cooperatives and Cooperators stand together. They work together to represent a common

entity before the public and government.

(vii) Honesty: This is most important for survival of cooperatives. Rochdale Pioneers had a special commitment to honesty. Indeed, their identity in the market was distinguished partly because they insisted upon honest business-honest measurement, high quality and fair prices. Cooperatives ideal is honest dealing with members and non-members. Therefore, cooperatives have no bias towards openness. They regularly reveal to their members and others information relating to their performance. Scope of honesty is much wider in cooperatives than what generally is understood. For individual honesty is not monetary honesty only, but also honesty of thoughts, commitments, behaviour and conduct, no hypocrisy or falsehood, no underhand dealings or false promises, no dishonesty in elections. In cooperatives honesty also encompasses correct maintenance of accounts and balance sheet, correct information to members, objectivity and fairness in personal matters. It prohibits undue favours of any kind to anyone. Individual Cooperators honesty, business honesty and managerial honesty brighten the image of cooperatives and their identity. Without honesty cooperatives have no cause to exist, no future to sustain themselves & will be in peril and danger of self liquidation without honesty.

(viii) Openness: It means that cooperatives are open to members of community they serve. They have a commitment to serve and assist individuals in helping themselves.

(ix) Social Responsibility: In fact Social Responsibility and caring for others are overlapping concepts. It means that cooperatives should move beyond caring for members only. They should financially assist or organize activities beneficial to the entire community. However, such activities can be taken up when cooperatives have surplus.

(x) Caring for others: It means take interest in and care about other people. This concept stems from humanism. Cooperatives are humane by nature though their main concern is to achieve economic object.

These Value concepts can be only in an individual who is an altruist, pluralist, self-denials, large-hearted, broad minded and above all a humanist, whose eyes become wet seeing others' sufferings; whose conscience revolts seeing others being exploited; whose heart throbs seeing the destitute and the oppressed; who gets happiness and satisfaction in helping others. To such people cooperation becomes a mission and means to solve problems and enable the weak to become collectively strong.

Chapter Four

Types of cooperative

4.1 Saving And Credit Cooperatives

DEFINITION

"SACCO" is an acronym for Savings and Credit Co-operative Society. This is an autonomous Association of persons united voluntarily to meet their common economic and social needs through a jointly owned and democratically controlled enterprise or business. A SACCO is a member owned financial cooperative whose primary objective is to mobilize savings and afford member access to loans on competitive terms as a way of enhancing their socio-economic wellbeing. It is "an organization owned by people living in one area such as farmers or people working together".

A SACCO is a democratically run and controlled organization. One thing that is clear is that the affairs of a SACCO are managed and administered by a Board of Directors elected at an Annual General Meeting. It is this Board of Directors, which hires a manager and support staff to run the day to day operations of the SACCO.

Savings and Credit Cooperative Society is a form of financial institution formal in nature, owned, controlled, used and democratically governed by members themselves. Its purpose is to encourage savings among members and using the pooled funds to make loans to its members at reasonable rates of interest, and providing related financial services to enable members improve their economic and social conditions. One peculiar feature about the SACCOS is that they are "not for profit" and also "not for charity" but for service to members.

SACCO PRINCIPLES

1. Voluntary and opened membership
2. Democratic member control
3. Member economic participation
4. Autonomy and Independence
5. Education, training and information
6. Cooperation among cooperatives
7. Concern for community

From the above, it can be seen that a SACCO or any other type of cooperative has four basic characteristics namely,

- Member owned
- Member used,
- Member controlled and
- Benefits member

1.3 Objectives of a Savings and Credit Cooperative

The objectives of SACCO are to promote the economic interest of their members and in particular to:

- (i) Promote thrift among its members by affording them an opportunity for accumulating savings and paying reasonable interest without risk on such savings.
- (ii) Create a source of funds from which it can afford relief to its members in need by making loans to them for productive and provident purposes at fair and reasonable rates of interest and with easy terms of repayment,

- (iii) Continuously educate members on how savings can be made on regular basis and the wise use their savings; and
- v) Provide service to its members such as financial counseling so that the members can solve most of their financial problems, and the risk of management service to ensure the safety of members' savings and loans.
- VI To fight poverty through improving the members' economic and social conditions by enabling the access financial services.
 - To fight exploitation of powerless individuals by the powerful individuals or institutions, by pooling their own resources to meet their needs.

1.4 Benefit of SACCOs to members

As a result, the formation of a SACCO has the following benefits to members:

- ⌘ Members are encouraged to save since SACCOs are readily accessible.
- ⌘ Interest rates on saving and lending is better than elsewhere a fact that sounds idealistic.
- ⌘ Members are taught how to handle their finances in a responsible manner this could be true only when they effectively economically patronize their SACCO.
- ⌘ Loans are insured, so if a member dies, the outstanding balance is settled. However, it's not the practice across board .Besides; other MFIs also do insure loans for their clients.
- ⌘ Savings are mobilized .This is done in some SACCOs not in others as others only mind share capital accumulation.
- ⌘ Regular social interaction between members.

4.2 Consumer Service Cooperatives

A consumer cooperative is a voluntary organization of consumers, organized to obtain their requirements of consumer goods and services on terms of greatest advantage to them. This type of cooperative undertakes retailing, wholesaling and sometimes, the production and processing of consumer goods.

Most consumer stores have been established on the principles enunciated by the Rochdale Pioneers. These principles are open membership, democratic control, and cash trading at market prices, fixed return on capital and dividend on purchases.

The main object of a consumer store is to serve its members and customers with goods required by them for household consumption. It is expected to provide goods at reasonable price and to protect the interest of the members. These stores are also expected to stabilize the price line and check the exploitation of the consumers by the private business.

The main achievements of consumer cooperatives are: -

1. Reduction in costs of retailing with advantages accruing to consumers, thus making possible more savings and higher standard of living and contributing to economic stability.
2. Provision of better quality goods.
3. Promotion of thrift and consequent increase in economic security of members.
4. Education in intelligent buying, family budgeting and general economics.
5. Check on monopoly by cooperative competition and profiteering.

Consumer cooperatives are one of the important cooperatives found in almost all countries. Consumer cooperatives work for the welfare of the consumers by means of providing pure goods at reasonable prices and relieve the consumers from the exploitation of middlemen. The very cooperative movement was organized first in the field of consumer cooperatives by the Rochdale Pioneers of England.

Need for / Advantages of Consumer Cooperatives

1. Consumer cooperatives help the consumers from the exploitation of merchants. The hold of the private traders in consumer business is very strong. There are very many intermediaries between the producer and the consumer. They take away a portion of the price paid by the consumer and exploit the consumers. This is avoided by consumer cooperatives.
2. They provide pure and unadulterated goods. Since the days of Rochdale Pioneers, consumer cooperatives have made it a point to provide only pure and unadulterated goods. Quality consciousness is always with the consumer cooperatives.
3. Consumer cooperatives distribute the articles for a lower price than market price because consumer cooperative go for bulk purchase of commodities through their wholesale stores. The wholesale stores purchase the commodities at the production center or manufacturing centers and distribute them at a low margin to the primary cooperatives. In turn the primary cooperatives sell the goods for a lower price.
4. They help to bring down the market price. Market price is influenced mainly by the private traders. Wherever the number of consumer cooperatives is high, they are able to bring down the market price also.

5. Consumers are able to get all items in one place. The organization of departmental stores or supermarkets by the consumer cooperatives made it convenient for the consumers to get all the goods under one place.
6. Bulk purchase and purchase at production centers provide the economies of scale. Consumer cooperatives go for huge volume of purchase and the benefit is transferred to the consumers.
7. During the times of scarcity, they help the free flow of goods at a reasonable price. Cooperatives are not profit oriented organizations and in many countries to distribute the essential consumer goods, governments have authorized them as the sole agency. Consumer cooperatives avoid the scarcity by means of keeping enough stock to the consumers.

Problems of Consumer Cooperatives

1. Disloyalty of members is a great problem for the consumer cooperatives. Members go to consumer cooperatives when there is scarcity and the price is low. Other times, they go to the private shops.
2. Raising of working capital is another problem for consumer cooperatives. Many of the cooperative banking institutions are meant for agricultural cooperatives and there is no separate cooperative financing agency for consumer cooperatives.
3. They have to work under stiff competition from private traders. Private traders join together and sometimes try to weaken the consumer cooperatives.
4. In several countries, the absence of federal consumer cooperatives has weakened the position of consumer cooperatives. Federal cooperatives are needed for bulk purchases, to provide training, to guide the primary stores and to raise resources.
5. In developing countries government interference affects the working. Consumer cooperatives are compelled to distribute scarce consumer goods for a lower price.
6. At national level, consumer cooperatives must enter into the production of consumer articles and processing of food articles.
7. Personnel efficiency is also questionable in consumer cooperatives. The employees of consumer cooperative must be given continuous training in customer attraction and improving their working.

8. Lack of integration between consumer cooperatives, producers' cooperatives and marketing cooperatives.

3.3 Producers Cooperative

Producers Cooperative Association is one of the largest member-owned local agricultural supply cooperatives in the nation. The Association is member-owned by the farmers and ranchers, but membership is not necessary to do business with us.

We manufacture livestock feeds and offer a complete line of value-added products and services including fertilizer, seed, petroleum, agricultural supplies and lawn/garden supplies.

Membership is not necessary to do business with us at PRODUCERS. We invite our friends and neighbors to take full advantage of our experience in the science of agriculture.

- A producers' cooperative is typically operated by farmers, producers of goods, or small businesses. Farmers and producers organize cooperatives in order to process and market their goods as well as to acquire credit, equipment, and production supplies. This provides them with greater economies of scale. For example, members of an agricultural cooperative, such as a dairy cooperative, will combine their efforts in order to purchase equipment and supplies at a discount, process their milk products in a combined fashion, and then market and distribute those products as a group. Unlike a collective farm, however, a member of an agricultural cooperative retains the ownership rights to their land. Similarly, small businesses can organize cooperatives to provide their membership with supplies or common services at a reduced rate. Crafts people frequently come together in the form of a cooperative in order to purchase supplies inexpensively and then to sell their goods to a larger market.
- Just as non-members may take advantage of the benefits of consumers' cooperatives such as food coops, producers' cooperatives' such as small businesses may employ non-members. However, according to John Murray in *Review of Social Economy*, studies done on the use of non-member labor within a producers' cooperative show this generally has a negative impact on the cooperative, such as reduced productivity. It may also spur the evolution of the cooperative into a more conventional form of business "in which the owners [are] employers rather than employees."

Advantages of Producer's Cooperative Society

Increase income: Large production facility can be gained as each labor or producers produce combined. It increases the volume of income as well.

Elimination of middlemen: To refurbish the interest of small producers to eliminate the exploitation of middlemen. That's why products purchase and direct marketing collectively. Consequently, it is not needed to depend on others.

Removing unemployment problem: This inventive society not only saves guard of the producers and labors but also it takes new projects and enlarges its activities in accordance with increase the financial ability. It creates employment and removes unemployment problem.

Marketing facility: The blind competition is declined among small produces due to establishing such kind of cooperative society. Production can be increased to measure the demand of the market. As a result, marketing becomes easier.

Safeguarding existence: Producer cooperative society is essential in order to safeguard existence various kinds of disadvantages as well as to exist in the market in comparison with prosperous industrialists.

Establishment of good industrial relations: The owners operate the activities labor in this kind of organization. As a result, the disparity between owner and labor is naturally abolished. It creates a good relationship between them.

Using of advanced technology and product: It is a goal of producers' cooperative society that produces various kinds of developed goods; takes various kinds of new projects, as well as to invest introducing new products. So, members can' learn the technique of new entrepreneurship.

Reduction of cost: The owners perform just like the labor in this organization. Generally, the production cost is reduced, because of huge purchase and production. Besides combine market reduces the cost as well.

3.4 Farmer Cooperatives

Farmer cooperatives are businesses owned and controlled by farmers, ranchers or growers. Through their cooperatives, farmers are empowered, as elected board members, to make decisions affecting the current and future activities of the cooperative. When a farmer joins a cooperative, they benefit through earnings returned on a patronage basis. For example, a farmer-member who accounts for 10 percent of the volume of milk delivered to the cooperative would receive 10 percent of the net earnings derived from the handling, processing, marketing and sale of that milk or related products. Such patronage dividends help boost the income of farmers directly or by reducing the effective cost of the goods and services provided.

Types of Farmer Cooperatives

Marketing cooperatives – handle, process and market virtually every commodity grown and produced in the United States

Bargaining cooperatives – bargain to help their farmer-members obtain reasonable prices for the commodities they produce

Farm supply cooperatives – engage in the manufacture, sale and/or distribution of farm supplies and inputs, as well as energy-related products, including ethanol and biodiesel

Credit cooperatives – provide farmers and their cooperatives with a competitive source of credit and other financial services, including export financing

3.5. Housing Cooperatives

Housing is a universal problem and next to food and clothing, the most important basic need for human beings is housing. Even highly prosperous countries cannot claim to have solved the problem of housing. In 1936, Theodore Roosevelt stated that about one-third of the nation was ill housed. In 1964, it was estimated that 25% of the people in America still lived in substandard houses. But in developing countries, the housing problem has been aggravated by the population explosion. The Economic Commission for Asia and Far East, in 1967, while expressing great concern over the increase in urban population, strongly recommended to the governments in developing countries to accord high priority to housing programs. The International Cooperative Alliance (ICA) recommended that cooperative housing should be given opportunities and support to continue its activity. The National Commission of Cooperative Development in USA stated that, in view of the failure of the private enterprise to cope up with the housing problem, “it becomes an obligation of the government or of the people themselves through cooperatives, to supply housing for those of limited economic means”. In 1964, a Working Group on Housing Cooperatives in India pointed out that, “cooperative activity is the best means of providing decent houses at a reasonable costs to persons, particularly of low and middle income groups who cannot afford to satisfy their housing needs by their individual efforts”. The ultimate objective of an individual in a civilized society is to own a house. But construction of houses involves heavy capital and it is beyond the capacity of an ordinary individual to construct his own house without external finance. Housing cooperatives are one of the prominent cooperatives in all types of economies.

Housing cooperatives played a significant role in solving the housing problems in foreign countries. In the period between two World Wars, more than half of the houses built in England were constructed with the help of housing cooperatives. Just before the Second World War one-fifth of the new buildings in Holland were built through housing cooperatives. In Sweden housing cooperatives were responsible for one-third of the new buildings constructed after the Second World War. The War devastated Germany; housing problem was solved by housing cooperatives. In 1957 there were 1679 housing cooperative societies, constructed 608,000 flats, which constituted 34% of the total in Germany.

Urban Housing Situations

Due to increase in population, urban areas are facing the severity of the problem of housing. Such situations are explained below.

1. Rapid growth of population and rural-urban migration led to the pressure on urban housing situations.
2. Low-income level of majority of the households led to the housing shortages.
3. High costs relatively high standard of both public and private constructions became beyond the reach of urban households.
4. Scarcity and high prices of urban building lands, due to speculation led to scarcity.
5. Building regulations and related legislations tightened urban housings.
6. Inadequate provision of urban facilities and services made the urban housing situations worst.
7. Lack of saving and inadequate number of housing institutions led to pressure on urban housing.
8. Lack of coordination among various government authorities and urban planners led to the seriousness of housing problems.

Importance of Housing

1. Next to food and clothing, the most important basic for human beings is housing.
2. Due to the increase in population, the demand for housing also continues to grow.
3. Natural calamities, war, cyclone, Tsunami, etc., led to construction of new houses.
4. Internal conflict, like that of African countries like Rwanda, Burundi, Sudan, Somalia, etc., increased the number of houseless refugees. Such people need housing facilities.
5. The growing middle class in developing countries led to the increase in housing facilities.
6. Increase in the level income in all countries led to the increasing need for housing.

The Main Elements of Housing Cooperatives

Though housing cooperative follows the principles of cooperation, they are different from other types of cooperatives. The main elements of housing cooperatives are as follows.

1. ***Self-help*** – This does not necessarily imply manual self-help or renunciation of external help.
2. ***Membership promotion*** – Promotion of economic interests of the members through service relations between the members and the cooperative enterprise.
3. **Identity of co-owners and customers** of the cooperative
4. **Democratic management and control** of the society by the members and also equality of the members.

4.6. Artesian Cooperatives

We have assembled work from over 50 local artisans. Each artisan is juried in to ensure a high level of quality and expertise in their particular craft. In our gallery you will find a variety of paintings types, photography, artful apparel, unique pottery, fused glass, special pieces of jewelry, colorful hand woven rugs, hand woven bags and journals, greeting cards from local artists and much more. Below are samples of the work we have on display.

Glass & Wood

Art glass can be created a multitude of shapes and can incorporate color through a wide range of techniques. Hand-made items that can include the use of molds for shaping, ribbing, and spiking to produce decorative bubbles.

Wooden Boxes made from all recycled or up cycled material. Each box is one of a kind. They come in Keepsake, Jewelry, Recipe, Tea and Ring boxes. Our wooden bird houses are made with recycled material. Baskets woven from local kelp. Wood vases from master wood workers.

Ceramics

As ceramic artists, each of us utilizes different clay bodies, glaze applications, and firing techniques. Some of the pieces available are hand built, stamped, and molded to create items like dishes, wall hangings, decorative and functional dishes, and sculpture. Our other ceramicists work at the potter's wheel, and throw bowls, vases, plates, mugs, and dishes. Much of the work we create is high fired in a gas kiln, leaving a finish that is food-safe and can be put the oven, dishwasher, and microwave. We also have artists that specialize in aesthetic pieces, and practice Raku firing, which is a Japanese firing technique that produces a unique and unpredictable blackened, metallic, or crackled finish. While our techniques vary, we each find beauty in the ability to transform clay into beautiful works of art.

Oils, Acrylic, Watercolors

Their work represents the full range of painting mediums, techniques, subjects and styles. Gallery visitors will find classic to experimental to whimsical watercolor, acrylic, oil, pastel, colored pencil. ink and collage paintings. Paintings on textured surfaces created with acrylic texture mediums. Oil paintings using a palette knife instead of a brush. Watercolors on Yupo both opaque and translucent. Watercolored flowers available framed or on cards. Our "Porched Pet" Painted Rocks. Local artists paintings of our beautiful coastline or vineyards.

Felt, Leather, Wool

Art that is created using natural or synthetic fibers or techniques that are traditionally thought of as relating to fiber, such as sewing or weaving. In our gallery you will find

clothing made from hand weaved material. Leather goods from shoes, boots and vests. Hand knitted hats and sweaters. Felted custom design hats. Scarves and shawls hand weaves, felted or knitted. Wool from our locally raised sheep. Raw wool available for spinning. Some of our yarn is dyed with natural materials. Notebooks and journals with weaved fabric jackets. Doll clothing from vintage hankercifs.

jewelry

Our jewelry artisans use a variety of techniques and materials to ensure you are getting a highly crafted unique piece of jewelry to wear or give as a gift. Our jewelers can manipulate metal, in order to achieve a wide variety of effects. Some using modern to traditional metal working techniques. Metal fabrication, enameling and up-cycled jewelry made from vintage flatware. Jewelry and crafts using California Sanddollars. We have a wide selection and price range.

Photography

Our photographers work in a variety of mediums and subject matters. Their work has been on exhibit in Art Centers and Museums. You can purchase their work displayed on wood, glass, aluminum, with archival mats, wood or metal frames. You will experience the beauty of the world through our selection of travel photography. Wildlife portraits of majestic birds of prey and local mammals. Marine life from our California Coasts. Landscapes of sun rises, storms and sunsets.

Chapter 5

Cooperatives laws

5.1 Introduction to cooperative law

What is Law?

In complex society where social control can no longer be based on close relationships law has proven to be the most adequate means of regulating the activities of economic agents who are not personally linked each other. For example, law established the criteria for the definition of legal persons, which gives physical persons the possibility of avoiding personal, financial liability.

A balanced society necessitates the existence of strong public, and private sector as well as a strong cooperative, mutual and the other social and non governmental sector. It is in this context that government provides a supportive policy and legal framework consistent with the nature and functions of cooperatives and guided by the cooperative values and principles.

Starting with their formation and ending with their dissolution cooperatives are subject to legislation. Their internal functioning as well as their dealings with the third parties has to be regulated. As a result the by-laws recapitulate and specify the main point of the law and relevant administrative acts.

5.2 By-laws

By-laws are operational rules that define the rights and responsibilities of members, directors and management. Directors are particularly responsible for ensuring that the cooperative and its members adhere to the by-laws.

By-laws perform two additional functions. First, they describe in more detail how cooperative affairs will be directed to ensure that laws will not be violated. Second, the by-laws address issues not specifically spelled out in cooperative law or in the statutes, but which are necessary to make the cooperative an effective, well-designed organisation.

5.3 Content of cooperative law

1. preamble
2. general provisions
3. formation, registration and publication
4. obligation and rights of members
5. organs and management of the cooperatives society

6. capital formation, accounts and distribution of results
7. audit
8. forms of dissolution
9. dispute settlement
10. miscellaneous, transitory and final provisions

In accordance with article 55(1) of the constitution of the federal democratic republic of Ethiopia, cooperative society proclamation no. 147/1998 proclaimed. Cooperatives proc. no. 147/98 enacted by parliament and observed by every cooperatives society.

Cooperatives by-law is a registered rule that regulates the internal affairs of a cooperative society. It maintains and regulates the relationship between members and a cooperatives society.

5.4 Ethiopian cooperatives societies proclamation

Article (11) of the cooperatives proclamation number 147/98 deals with by-laws of a cooperatives society.

11(1) any cooperatives society shall have its own by-law

11(2) - the contents of the by-laws shall have the following particulars

a) Name and address of a cooperatives society

b) Objectives and activities of a cooperatives society

- protecting members from abnormal price
- supply of unadulterated provision
- provision of commodities required by members
- improving the socio-economic status of members

c) Working place of the cooperatives society

d) The requirements for the eligibility of membership

(Justification behind membership)

- she/he must have attained the age of 14
- she/he should not be an unsound mind
- she/he should be resident within the area of operation
- she/he should not be a paid employee of the society
- one who is able to pay share capital and registration fee

e) Rights and duties of members

- rights to participate in the meeting of the society
- right to vote
- right to vote
- right to elect and be elected
- right to withdraw from the society on his request
- right to inspect the accounts of the society
- duty to respect the by-laws directives and decision of the society
- duty to perform activities assigned
- duty to pay share capital and registration fee
- duty to protect the common property of the society

f) Powers and duties of management bodies

g) Condition for withdrawal and dismissal of membership

- not participated in any business activity for one year
- not attended two consecutive general meetings
- at the event of death
- in case of loss of common bond
- By the decision of General Assembly due to committing repeated faults.

h) Condition for election, re-election, and term of office and dismissal of the management bodies

- Term of office of the management committee can not be more than 3 years.
- None of the members can be elected for more than two consecutive terms.
- Dismissal of management committee may take place on the following grounds.
 - manipulation of accounts by fraud/intention/ prior knowledge
 - Indulging mistakes continuously /negligence/ misfit.
 - violation of by-law and directives
 - continuously assaulting the members, the members peers
 - Loss of common bond.

i) Condition for calling general meetings and voting for the society

- The reason for calling extraordinary meeting must be important urgent and justifiable by at least one third of the members of the management committee.

- The reason for calling general assembling is to approve the auditing report and the plan of the coming year

j) Allocation and distribution of profit

- the reserve fund (30%) should be deposited in the saving bank account of the society
- the rest of the profit (70%) should be distributed as dividend
- a member who received net profit can buy additional share

k) Auditing, examining and evaluating the books of accounts

- continuous auditing - conducted continuously
- periodic auditing - conducted (in cooperative) fiscal years

l) Employment

- When there is vacancy announcement, priority should be given to the member or members' family.

Statutory powers of the General Assembly (Article-12)

The General Assembly of society shall:

- pass decision after evaluating the general activities of the society
- Approve and amend the by-law and internal regulation of the society.
- elect and dismiss the members of management committee, controlling committee, and other sub committee
- determine the amount of shares of the society
- decide on how the annual net profit of the society is distributed
- pass decision on the audit report
- decide that the society either be amalgamated with another society or be divided according to the proclamation
- approve the annual work plan and budget
- decide any issue submitted by the committee

Statutory powers of Committees

Power and duties of Management Committee (Article 24)

- Maintain minutes of meetings in writing
- maintain the documents and books of accounts of the society

- prepare the annual work program and budget of the society
- call general assembly in accordance with the by-laws of the society
- execute such other duties given by the general assembly
- report to the general assembly on the basis of the society

Power and duties of Control Committee (Article 26)

- follow up whether the management committee is carrying out its responsibilities properly
- follow up whether the funds and properties of the society are properly utilized or not
- control various activities of the society to ensure they are carried out according to the by-laws and internal regulation of the society
- perform other duties given by the general assembly

Summary

Starting with their formation and ending with their dissolution cooperatives are subject to legislation. Their internal functioning as well as their dealings with the third parties has to be regulated.

Statutes regulate not only the existence of a cooperative, but also the direct relationship between the cooperative and its members. The statutes are the internal legislation, on which legal relations between members and the cooperative are based

By-laws are operational rules that define the rights and responsibilities of members, directors and management. Directors are particularly responsible for ensuring that the cooperative and its members adhere to the by-laws.

Cooperatives by-law is a registered rule that regulates the internal affairs of a cooperative society. It maintains and regulates the relationship between members and a cooperatives society.

CHAPTER SIX

organization and management of cooperatives

6.1. Procedures for organizing cooperatives

Steps to starting a cooperative

Like other business, every cooperative starts with the recognition of a need or an opportunity. One or two people willing to put in some time and energy can spark a group interested in starting a cooperative.

Members of such a group have a mutual need that can be addressed through joint action. They could, for example, lack a market for their products or lack necessary supplies or services. Action together to address that, need they can achieve something which none of them could achieve alone.

BASIC STEPS IN STARTING A COOPERATIVE

1. Hold an organization meeting; establish steering committee.
2. Conduct a feasibility study.
3. Hold a meeting of potential members to report on the results of the Feasibility studies
4. Incorporate the cooperative by filing articles of incorporation and bylaws.
5. Prepare a business plan.
6. Secure finance for the cooperation.
7. Recruit/Admission of members for cooperation.
8. Hire cooperation management and staff.
9. Hold the cooperatives first membership and board meetings.
10. Start cooperatives.

1. Hold an organization meeting and establish a steering committee

a. A core group of individuals should hold an informational meeting of potential cooperative members and others in the community. The primary purpose of the meeting is to explain the identified need and how cooperative would address it.

It is important that the group come to general agreement on the nature and importance of the problem and the potential for a cooperative to address it. Such an agreement will become the group's shared vision, so it is worth spending as much time as necessary to achieve it.

b. Provide informational handouts that explain what a cooperative is how it would work. Also provide information about the steps involved in starting a cooperative so people have a sense of what they may be getting into. Determine the level of interest in exploring cooperation among meeting participants.

Many organization groups have found it helpful to invite speakers from other cooperatives in order to highlight their success stories. This often gives meeting participants a more down to earth vision of what cooperatives is how it can work for them.

c. A steering committee should be formed of participants at the meeting which will coordinate activities on behalf of the group. Committee members must be able to provide leadership to the large group and be willing to put some time and energy into researching the feasibility of the proposed cooperative.

d. Allow plenty of time for question and discussion. A meeting like this often works best if it is led by an experienced facilitator. In many cases, it is necessary to hold more than one meeting to give all interested parties in the community a chance to participate.

TYPICAL STEERING COMMITTEE MEMBERS

1. PRESIDENT.

Often the “project champion.” Facilitation skills a big plus.

2. VICE PRESIDENT.

May chair key subcommittee.

3. TREASURER.

Manage funds. May lead business plan phase. Accounting skills a big plus.

4. SECRETARY.

Coordinates all communications. Computer skills a big plus.

5. NON-OFFICERS.

2. Conduct a Feasibility study

a. The steering committee can either conduct a feasibility study (using the guidelines provided), or hire a consultant to carry out the study. The purpose of a feasibility study is to examine critical opportunities and obstacles that might make or break the proposed cooperative business. The feasibility study should give the group a good idea of whether the cooperative is likely to be successful as a business.

The critical issues that a feasibility study analyzes include the number and interest level of potential members; market issues (can the cooperative get better prices, better quality or better services than potential members currently get through other means?) operating costs; start-up costs; and availability of financing.

If insurmountable obstacles are discovered in the feasibility study, the development of the cooperative should be abandoned or shelved before too much time and money has been expended.

b. In some cases, local or state governments or foundations may provide financial or technical assistance with the feasibility study. The quality of the feasibility study is critical because it will influence all future decisions on the development the cooperative. Don’t hesitate to bring in outside expertise when you need it.

Contributions by potential cooperative members are often used to help cover the cost of feasibility study. These members will be the primary beneficiaries of the cooperative, so naturally they should assume some responsibility for the financial costs of assessing its feasibility.

3. Report on the Results of the Feasibility study

- The steering committee should hold a follow up meeting with potential cooperative members to report on the results of the feasibility study. A summary of the feasibility report should be distributed to participants, and the full report made available to anyone who wishes to see it. Allow plenty of time to discuss the report and ensure that potential members understand and results.
- Be sure to spend time reviewing the financial section of the report. The preliminary financial projections should tell the group how much equity will be required from each member of the cooperation, and whether or not the cooperation is projected to return any patronage refunds (shares of the profit) to members during the first few years of operation. These are key pieces of information that will influence each person's decision about whether to join the cooperation.

This should be a major decision point. If the feasibility study indicates that the cooperation is not a viable business, or if sufficient commitment does not exist among the group, the steering committee should not proceed with forming the cooperation.

4. Incorporate the Cooperative and file Articles of Incorporation and Bye-laws

- a. In most states, a cooperative has to be incorporated under the appropriate state statute in order to conduct business. Most states have statutes specifically governing cooperatives. The articles of incorporation describe the kind and scope of the cooperative's business. Incorporation takes place when a cooperative files its articles with the secretary of state. If the steering committee wishes to, it may draft the articles of incorporation and bylaws. Make sure to have a lawyer who is familiar with cooperatives review these documents before they are presented to the membership.
- b. The bylaws state how the cooperative will conduct business, and must be approved by the membership. Note that a cooperative can start out with very basic bylaws and refine them after the business plan has been developed.
- c. As soon as the cooperative is incorporated and thus exists as a legal entity, two members of the steering committee should open a bank account in the cooperative's name. This account will be used to deposit equity contributions from new members.
- d. A note about stock: Articles of incorporation allow the steering committee to decide whether the cooperation will issue stock or not. We recommend that the cooperation do so. In recruiting new members it can be an important symbolic act to hand over stock certificate to each individual who joins the cooperation. Many new members feel more comfortable having something in hand to show for their contribution. Some potential members also find a stock cooperative easier to understand than a non-stock structure. Blank stock certificates are available at most office supply stores. Just fill in the blanks to indicate the number of shares each member buys and the cost per share.

5. PREPARE A BUSINESS PLAN

- a). If the feasibility study results are favorable, the steering committee carries out or hires a consultant firm to develop a detailed business plan. The business plan serves two primary

purposes; to provide a blueprint for the development and initial operation of the cooperation to provide supporting documentation for potential members, financial institutions and other investors.

b.) A typical outline of a business plan includes a description of the company, a market analysis, research and development related to the cooperatives product or service, a marketing and sales plan, a description of the organizational structure and key personnel, and financial data.

c). Few steering committees have sufficient skills to develop a thorough business plan. Obtaining technical assistance can make the difference between a business plan that gets a loan and one that does not. Note that many state governments offer grants and loans to assist start-ups with technical assistance and business planning.

6. Secure Financing

a. Cooperative businesses vary greatly in the amount of capital they need to get up and running. The business plan should include the amount and type of financing needed by the cooperative and a strategy for obtaining it. The steering committee and its advisors are responsible for implementing this strategy.

b. Virtually all cooperatives require some level of member financing, usually in the form of stock purchases or membership fees. Member financing not only provides equity for the cooperative, it also provides a financial base that helps other investors, particularly banks, feel more secure in investing in the cooperative. The steering committee should prepare a membership application for new members to fill out and sign. It should identify the member's name, address, and phone number; the number of shares of stock being purchased (or the amount of the membership fee if it is a non-stock cooperative); and a stated agreement that the new member agrees to belong to and abide by the bylaws and contracts of the cooperative.

Each member's initial financial contribution should be collected at the time the membership application is submitted.

c. In addition to member equity, most cooperatives need to borrow money to get started and to maintain their operations; Loans can come from banks and other financial institutions (including several national banks for cooperatives).

7. Recruit / Admission of Members

a. Laying the groundwork for the cooperatives membership base needs to begin when the steering committee first meets, conduct surveys and mail organizing updates to them, and collect initial down payments on membership fees.

All of these activities provide a good indication of the level of interest in, and commitment to, the cooperative. Thus, when the time comes to actually "ante-up" and join, potential members are more primed to act. Even so, the steering committee may need to recruit new members in addition to those who have attended one or more of the organizational meeting. This should be a major decision point. If the cooperative is unable to obtain the necessary debt financing or if sufficient commitment does not committee should not proceed with developing the cooperative this time.

8. Hire Cooperative Management

a. Some new cooperatives identify management personnel early in their organizing process, especially if one or more key individuals are already known to members of the steering committee. However, recruiting staff personnel is listed as a later step in the cooperative formation process because the cooperative is not a definite “go” until the necessary financing has been secured.

9. Hold cooperatives First Membership and Board Meetings

a. After financing has been secured and sufficient members have signed up, the first general membership meeting is convened. There are two major pieces of business that must be conducted at this meeting;

- The members adopt the cooperatives bylaws; and
- The members elect a board of directors for the cooperative

This meeting marks the transition from a steering committee and interim leadership group to a formally elected board a legally approved bylaws.

Allows enough time for members to look over the bylaws and ensure that they are thoroughly understood before the vote takes place. There may be a few amendments suggested; these and the bylaws are approved by majority vote.

10. Start operations

a. During the initial phase of the cooperatives operations, management should concentrate on implementing the business plan. It is vital that frequent communication between staff, board and members be maintained during this period. Some cooperatives have lost touch with their members after start-up, and have found that to be recipe for disaster. Management and board need to make sure the cooperative is meeting the needs of the member’s over time. Do this through regular newsletters and members surveys.

6.2. Registration of cooperatives

- a. Any society shall be registered by the appropriate authority.
- b. Any society, when established, shall submit an application for registration together with the following particulars to the appropriate authority:
 - minutes of the founders meeting;
 - the by-laws of the society inn three copies;
 - names, address and signature of the members;
 - name, address and signature of the members of the management committee of the society;
 - documents showing that the amount of capital of the society and the capital has been collected and deposited in a bank account, if there is no bank in the area, that it has been deposited in a place where the appropriate authority has designated;
 - the description of the land on which the society operates;
 - Other particular that may be specified in the regulations or directives issued for the implementation of this Proclamation.

- c. The appropriate authority shall register a society and issue a certificate of registration within 15 days when it is satisfied that the application for registration submitted to it has fulfilled the requirements for registration.
- d. When the appropriate authority rejects the application for the registration of a society, it shall give a written explanation to the representatives of the society within 15 days. The representatives may appeal to the high court which has jurisdiction on the decision of the appropriate authority.
- e. The certificate of registration issued to a society pursuant to Sub-Article (3) of this Article is in accordance with this Proclamation
- f. Juridical Personality and Responsibility
 - Any society registered in pursuance of Article 9 of this Proclamation shall have juridical personality from the date of its registration.
 - Any society shall not be liable beyond its total asset. It has limited liability.

6.4 Management of cooperatives

Cooperative management is the process of planning, organizing, staffing, directing controlling and budgeting cooperative resources towards the achievement of the societies objectives in most efficient way.

A cooperative organization comprises Members, Board of Directors (BOD) and Managers all of whom are involved in management process at different level. The members are owners of the cooperative organization. They are required by cooperative law to elect the board of director among themselves to manage the organization on their behalf. The boards of directors employ staff to carry out specific duties in organization.

Cooperative organizational development is based on two principles:

- Putting members' interests first, so that all the goals achieved ultimately benefit the members
- Maintaining an entrepreneurial approach in identifying and pursuing business opportunities

Finding the balance

The management of the cooperative has the difficult task of finding a balance between operational success and member satisfaction, which is often focused on the short term. Combining both short-term economic success and long-term sustainability can best be achieved if

the members develop a well-defined vision, clearly formulated objectives and a phased strategy for business development.

Business plan

Once approved by the (potential) members, the strategy for business development will be worked out in a business plan. This will include detailed planning of activities, budgeting and financial economic planning. The business plan will also include a strategy for organizational and humanresources development, which should be implemented in harmony with the development of business activities.

Such a plan will also include indicators for monitoring and evaluating achievements. Continuous monitoring is essential in order to adjust targets in time once the business is in full swing and unexpected developments occur.

Development of a cooperative structure

In each cooperative there should be a structure in place to ensure effective and ultimate control by the members. This includes the right to:-

- Draw up or change the by-laws and rules of the cooperative
- Decide on general and business policy issues
- Take decisions regarding election, appointment and dismissal of the board of directors and the supervisory board
- Approve of an operational plan, budget and financial accounts, general conduct of business and management of the cooperative.

The organizational structures of cooperatives are partly determined by law and partly by the cooperative itself. Most countries have a cooperative act or other relevant legislation. As we have seen in section 4.3, there cannot be a single blueprint for all cooperatives. Each cooperative has to develop its own structure to suit its specific situation and objectives. Large-scale cooperatives need more complex organizational systems to ensure that all member interests are represented. In most countries the law prescribes some system of external auditing. This, however, should not replace internal control mechanisms.

Formation of a steering committee

The formation of a cooperative usually starts with the identification of leaders to represent the group of initiators. A steering committee is formed that often coordinates several working groups of potential members appointed to study opportunities or to work out various organizational aspects. The steering committee assumes a number of important responsibilities such as: determining the initial feasibility of a cooperative, building trust among potential members and selecting advisers or resource persons for the group.

Steering committee members should have good business sense, an understanding of the problems to be addressed, as well as some knowledge of cooperative organisations. They should be respected members of the community and be viewed as credible sources of information. Many potential members will base their decision to join the new cooperative on the credibility of the steering committee. Steering committee members are expected to be responsive and articulate in answering questions from potential members and other stakeholders.

In many cases, members of the steering committee will go on to serve as the interim board of directors for the cooperative until the formation process of the cooperative is completed.

The general meeting of members

The general meeting of members is the supreme organ of the cooperative. This means that the general meeting makes all basic decisions regarding the structure and operation of the cooperative. However, in the early stages of cooperative activities, members may not always be in a position to participate effectively in the decision-making process, because of lack of understanding and experience of both members and leaders.

In such situations it is often advisable to organise discussion seminars prior to the general meeting in order to ensure that members participate actively in meetings and are able to make effective and informed contributions. At these seminars, members could be informed in detail and discuss the issues on which decisions need to be made at the general meeting. In such a seminar it would also be possible to invite resource persons such as bank officials and local decision-makers, who are in a position to analyse issues from all sides. Thus, members can be informed extensively but left to form their own opinions.

The gender aspect should receive sufficient attention so that female members of the cooperative play an adequate role in decision-making. Social and cultural barriers might restrict the participation of women in all stages of the process, but measures should be taken to ensure that

their opinions and voices are heard and that they actively participate in taking important decisions or be elected to the board and other posts.

The board of directors

In the cooperative's first or formative general meeting, members will appoint the cooperative's first management board or board of directors. The board of directors is responsible for running the cooperative. It should consist of at least two members who can be asked to act on behalf of the cooperative either jointly or individually. It is advisable that they act jointly to guarantee control of management. The statutes should spell out whether the board can act and make decisions only on the explicit authority of and with the approval of the members, or whether the board can act more independently, thus acting on behalf of the members without having to consult them on every issue.

The members of the board of directors may carry out the board's activities as their main work, as a part-time job, or as an honorary occupation. This depends on the size of the cooperative and amount of work involved. In many cooperatives the functions can be carried out on a part-time basis with perhaps one or two paid clerks to assist the board. As the business and needs of the members expand, however, more and more time will be needed and it may become necessary to employ a full-time manager.

The supervisory board

While the board of directors is responsible for running the cooperative, the purpose of the control or supervisory board is to exercise the members' control over the decisions made by the board of directors. The functions of the supervisory board should also be laid down in the statutes. The supervisory board should consist of at least three members elected by the general meeting.

The manager

As the business operations expand, it may become necessary to recruit a full-time, qualified manager. This should be a talented professional manager with sufficient experience and capabilities to balance the need to achieve the cooperative's long-term objectives (the joint business interests and sustainability) with the needs of individual members. The importance of selecting and appointing a suitable manager of the cooperative cannot be over emphasized.

Development of the leadership team

The role and level of involvement of the leadership team changes throughout the process of formation of a new cooperative. In the early stages of development, leaders have a high degree

of involvement in promoting the concept and forming the steering committee. Once a manager is appointed, the role of the manager increases as a number of responsibilities are shifted from the steering committee to the manager. Although many organizations delay the hiring of a manager until the cooperative is fully operational and running, it may sometimes be advantageous to hire a manager earlier in the process to assist in member recruitment, securing funding and in overseeing construction activities.

The main activities in cooperative management

1. **Planning** - is the process of thinking and perceiving, judging and deciding in advance what to do, how to do, when to do, who is going to do it with respect of other operations. It is determination of the course of action to achieve desired result.

Steps in planning:-

- establish objectives
 - develop alternative courses of action
 - select the best and desirable option
 - prepare operational plan
2. **Organizing** - is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority in order to enable people work most effectively to achieve the stated objective of the cooperative.
 3. **Leading** - the process of influencing the activities of individuals or groups towards the achievement of a given goal. Leaders are charged with the responsibility to:
 - Up hold cooperative principles & values
 - Ensure efficient utilization of resources
 - Solve internal conflicts
 - Monitor progress
 - Supply information and feedback
 - Motivate subordinates
 - Install moral of the staff
 4. **Co-coordinating** - is the orderly arrangement of group efforts in order to provide harmonies and unified action towards the achievement of the stated objectives, so as to avoid wastage of resources and duplication of efforts.

5. **Controlling** - is the monitoring of activities against plans and goals in order to provide harmonious and unified action to correct deviation

Steps in controlling:-

- situation analysis
- planning (what does the cooperative organization wants to achieve)
- setting standard of performance
- monitoring performance
- taking decision of action
- communication

CHAPTER SEVEN

FORMS OF BUSINESS ENTERPRISES

Different forms of business enterprises have been developed, particularly after the industrial revolution, which gave birth to the system of large-scale production in factories. New methods of production paved way for new forms of economic enterprises. Several intermediaries started operating in the market and markets got wider scope. There was greater division of labour and specialization. Capital and labour got divorced and a new class of entrepreneurs emerged. New forms of economic enterprises came into being in addition to the existing ones.

There are basically five types of business organizations in free enterprises and mixed economies. They are:

1. Sole proprietorship
2. Partnership
3. Private enterprise corporation
4. Government corporations and
5. Cooperatives

1. Sole Proprietorship

A business that runs under the exclusive (private) ownership and control of an individual is called sole proprietorship or single entrepreneurship. It is started through the initiative of an individual and is run with the capital supplied by the proprietor from his resources or through borrowed means. The proprietor manages the business himself, bears all risks alone and gets all profits by virtue of the nature of this form of organization. He has almost unlimited freedom of action to run his business. He may choose to run any line of business without going through the legal formalities excepting those in which license may be required from the Health Department, the Municipal Authority, or some other body. The individual may run the business alone with the help of his own skill and intelligence or may employ a few employees for that purpose. It is the simplest and the oldest form of organization.

Features

It is the oldest form of commercial organization. It is because of its peculiar features that even in these days of modernization individual proprietorship stand out unaffected.

- (i) Single Ownership:** This is owned by one man and nobody else contributes capital.
- (ii) Own Control:** He has absolute (total) control over the affairs of the concern. His decision is final. Since he need not consult others, he can take quick decision and gain enormously.
- (iii) Own Profit:** The attraction of reaping (collecting) the entire profits motivates him to put forth the best in him.
- (iv) Unlimited Liability:** The **liability of the sole proprietor is unlimited**. As a result, when his business assets are not adequate for paying the debts, his private properties have to be sold.
- (v) Absence of Government Regulation:** A **sole proprietary concern is free from Government regulations**. No formalities are to be observed in its formation, management or in its closure.
- (vi) No Separate Entity (body):** The sole trading concern **is not regarding (observing) as an entity (body) different from the proprietor**. Consequently the **business comes to an end with the permanent disability or death of the proprietor**.
- (vii) Limited Capital:** Since **capital is contributed by only one individual** it is bound to be small. Apart from this financial constraint his inability to manage beyond a level also impedes its expansion. The size of the business unit therefore tends to be small.

Merits

- (i) Easy to Form and Dissolve :** Since **no legal formalities need** to perform to start a sole proprietary business, it is most easy to start a business as a sole proprietary concern. Sometimes, a few restrictions are placed by local bodies such as municipalities, etc., from the view point of maintenance of health and sanitation. Just as it is easy to form, it is equally convenient to **dissolve a sole proprietorship concern**.
- (ii) Direct Motivation:** In this form, there is a **direct relationship between rewards and efforts**. The sole proprietor enjoys the entire profits and hence is inspired, induced and motivated to give his best of efforts and skills in running the business.
- (iii) Absolute Control:** The **proprietor is free to prepare any plans and policies and execute them for the success of his business without any interference** or clash of interest from any quarter. He is free to direct and control the operations of his business.
- (iv) Business Secrecy:** **To face the challenge of competition in the market**, maintenance of business secrecy provides an edge to the firm over its rival firms. The degree of retention of

business secrecy is the highest in this form of organization.

- (i) **(vi) Flexibility in Operations:** If the situation demands changes in strategy, the same can be easily brought about to meet the changed situation without causing (reason) least of unsought (unwanted) consequences (cost). Sole proprietorship offers the scope for flexibility in business operations by allowing the business to **adapt and adjust itself to changing times and situations.**

Demerits

(i) Limited Capital: Since the **capital is contributed by one individual only, business operations have necessarily to be on a limited scale.** Even when he wants to raise funds by borrowing, the borrowing capacity of one individual is bound to be limited. Thus large scale units which require enormous capital cannot be started by an individual.

(ii) Limited Managerial Skill: Whoever **may be a person his resourcefulness and business management will be less effective beyond (away from) a certain stage.** Further, since he has to keep his fingers on everything and has to work under severe stress, he likely to take wrong-decisions. Thus, these two factors, namely limited availability of capital and limited managerial ability do not allow the business unit to expand.

(iii) Unlimited Liability: The **liability of a sole trader being unlimited,** even his private assets are in danger of being lost.

(iv) Uncertainty (indecision) of Continuity: Since the **success of the sole trading concern hinge (turning point) on the personal qualities** of the proprietor, any prolonged illness or permanent disability or death brings the business to a standstill.

2. Partnership

This is a joint business carried on by two or more partners who agree to share the profit/loss in certain proportions. The partners make joint contributions of labour or property or both and exercise joint control over the operations and divide the resulting profit or loss. Among the partners, some may be sleeping partners who have just supplied capital. The terms and conditions of partnership are incorporated in a partnership deed.

This form has certain advantage over the individual proprietorship. This is particularly useful when the partners have insufficient capital or inadequate skill to carry on the enterprise individually; and when largely partners themselves perform work. It is suitable in such areas and

professions where corporate form is inappropriate.

When the enterprise grows in size, partnership becomes unwieldy. Partnership requires perfect understanding and teamwork among the partners. It needs to be reorganized or wound up when a partner withdraws or dies. It may lack continuity. The unlimited liability of the partners for the debts of the firm is a constant threat for the partners. The partnership may hardly serve the purpose, when large amount of capital, know-how and technology is required in the enterprise.

FEATURES

(i) Two or More Persons: There must be atleast two persons to form a Partnership. The partnership Act fixes no maximum limit on the number of partners of a partnership firm.

(ii) Contractual (agreement) Relation:

There must be an agreement between two or more persons to enter into partnership. Such an agreement may be oral, written or implied (indirect or discussion). Since partnership is an outcome of a partnership the persons who enter into an agreement of partnership must be competent to enter into contract. Minors, lunatics, insolvent and other persons incompetent to enter into a valid contract cannot enter into a partnership agreement.

(iii) Lawful Business: The partners must agree to carry some lawful business. Mere holding of property in joint ownership cannot be considered as partnership unless it is accompanied by certain business activities and possesses other features of partnership.

(iv) Sharing of Profit: There must be an agreement to share the profits and losses of the business of the partnership firm. This is at the very root of bringing the persons together to carry on a business. However, sharing of profit is not a conclusive proof of partnership. Employees or creditors who share profits of the firm cannot be called partners in the absence of any agreement of partnership.

(v) Agency Relationship: There must be an agency relationship between the partners. This is the crucial test of the existence of a partnership firm. **Every partner is a proprietor as well as an agent (mediator) of the firm.** The business of the firm may be carried on by all or any of them acting for all unless otherwise agreed. Every partner is entitled (permitted) to take part in management of day-to-day operations of the firm and to represent the firm and other partners in dealing with other parties.

(vi) Unlimited Liability: As a result of contractual relationship between the partners of a firm,

all the partners are liable jointly and severally for all debts and obligations of the firm to an unlimited concern.

(vii) Non-Transferability of Interest: A partner cannot transfer his proprietary interest to any person (except those who are already the partners) without the unanimous (undivided) consent of other partners.

MERITS OF PARTNERSHIP

- (i) Ease of Formation
- (ii) Larger Resources
- (iii) Combined Abilities and Judgment
- (iv) Flexibility
- (v) Quick Decisions
- (vi) Cautious (careful) Operations
- (vii) Survival Capacity
- (viii) Better Human or Public Relations

DEMERITS OF PARTNERSHIP FIRM

- (i) Lack of Harmony (agreement)
- (ii) Limited Resources
- (iii) Instability of Business
- (iv) Lack of Public Confidence
- (v) Risk of Implied Authority
- (vi) Unlimited Liability
- (vii) Non-Transferability of Interest

3. Private enterprise Corporations

The company form of organizations is a typical form of modern enterprise, which tends to supersede other forms of business enterprises. The unique feature of a joint-stock company is that it is created by law as a 'legal person' quite distinct from the individuals who constitute it. It is perpetual and stable, as it continues to exist irrespective of the death or withdrawal of any shareholder. The liability of the company is limited which makes the investment in its share attractive. The small denomination of shares enables mobilization of required resources from a large number of investors.

The shares are transferable, imparting liquidity to the, investment. The main objective of a company is to make profit for the investor-owners. This form of organization is suitable for large-scale enterprises and pervades all the fields of activities such as industrial production, trading, banking, transport, etc.

The corporate type of enterprise suffers from some drawbacks. There is divorce between ownership and control. Control of the enterprise lies with dominant share holders leading to oligarchy in management. The limited liability may encourage speculation and malpractices or

manipulations in share dealings. The directors may sometimes indulge in malpractices and corrupt methods. Despite these shortcomings, the company type organizations are quite popular and their advantages seem to outweigh the disadvantages.

4. State Enterprises

In socialistic countries and mixed economies the state resorts to public control over national resources in order to achieve planned progress on all fronts according to the defined social ends and for securing distributive justice. This has resulted in establishment of state enterprises in many countries. State enterprises are organised in key sectors, strategic industries and public utilities.

State enterprises are organised as government departments, government-owned companies or special public corporations. The Government contributes capital. Additional resources may also be raised by borrowings from the financial institutions or by issue of bonds.

State enterprises are owned and managed by the State for the common benefit of the people. They are more amenable to central planning. They have almost unlimited scope for expansion. Their management is subject to direct state control.

Though public enterprises are essential in certain fields like public utilities, defense production, key and heavy industries like steel, oil, gas etc., they suffer from certain drawbacks. The standard of efficiency in them is generally very low because of undue political and governmental interference in their affairs. Their executives lack personal incentive and initiative. They lack managerial autonomy. Their social costs and investments are heavy. No wonder that many of the public enterprises often incur heavy losses.

Cooperatives and other business enterprises:

A comparison

As enterprises cooperatives share the main problems common to all other forms of enterprises. Yet, cooperative enterprises have their own unique characteristics, which sharply distinguish them from other forms of enterprises. The distinguishing features of the cooperative enterprises as compared to other forms of business enterprises are discussed below.

1. Objective of the Enterprise. All forms of business enterprises are engaged in some kind of business activity - buying and selling of goods, services or producing and marketing

good/services. The private enterprises aim at maximizing profits for the owners. Profit objective thus predominates in private enterprises, while in public sector business corporations' profit objective and social objective get equal importance. In both private and public sector enterprises, profit goes to the owners. The objective of the Cooperative enterprise on the other hand, is to meet the common needs of members at a minimum cost, and not to earn profit for the owners.

2. Membership of the Enterprise. The membership of family enterprises and partnership firms is highly restricted to a limited circle of family members or closed groups. On the other hand public limited company's membership is open to public and any person can apply for or acquire its shares whether his economic need corresponds to the line of business of the company or not. There is no restriction on the number of shares an individual may hold. In all forms of private enterprises and public sector enterprises, membership is not a condition for doing business with the enterprises. In a Cooperative enterprise though the membership is open and voluntary, there are certain restrictions. First, one must be a person who must share the common need with other members and need the services of the organization. Secondly, one must meet the qualification specified for membership such as residing in the area of operation of the organization. Further, the membership is an eligibility condition for availing the services of the cooperative.

3. The nature of share capital. Capital invested in capitalistic forms of enterprises, viz., sole proprietor and partnership firms and in private sector companies is a form of profitable investment. It is both a source of power and a source of revenue, i.e., it is entrepreneurial and acquisitive as well. All forms of capitalistic enterprises use borrowed capital along with the owners' capital; try to earn a higher rate of return than the rate of interest on borrowing, and aim at increasing the earnings on owners' capital. That is, they take advantage of financial leverage. In them capital is impersonal and the capital owner need not participate in the business of the enterprise.

In a cooperative enterprise, the share capital is not a form of investment. It is only means for acquiring membership for satisfying the eligibility requirement for availing the services of the cooperative. The shares in a cooperative are not transferable, and not traded in stock exchanges. The share capital in a cooperative is only a wage earner and not the profit taker.

A fixed rate of interest on share capital may be paid at the discretion of the general body of members. The rate should not exceed the maximum rate specified in the by-laws of the cooperative. Even though a cooperative may raise additional funds by borrowing from financial

institutions, it does not take advantage of financial leverage, because it does not aim at maximizing the return on share capital.

4. Control of Business. In proprietorship, family enterprises and joint stock companies' owners (share holders) enjoy rights of control in proportion to their share holdings, because they associate as owners of capital and not as mere human beings. Moreover in a joint-stock company, most of the shareholders are small holders and scattered and their control is rather illusory, because they cannot afford to attend the general meeting by spending out of their pockets. Hence invariably, big shareholders gain control over the company by virtue of their own voting rights and also by securing additional proxy votes from other shareholders. Control is thus concentrated in a few shareholders.

In a cooperative firm, on the other hand, the control is truly democratic. All members enjoy equal rights of control, irrespective of the number of shares they hold. 'One member, one vote' is the cardinal principle of cooperative management. Besides, there is no proxy system in a cooperative enterprise. Members have to personally present in the general meeting to exercise their power of control.

5. Doing business with non-members. All forms of private enterprises and public enterprises are mere business enterprises, for doing the selected form of business. Hence the question of confining the business dealings with owners only does not arise. In fact their owners are only profit takers and not the users (customers) of their enterprises. Therefore these enterprises deal with others for earning profits for the owners.

But a cooperative, being a non-profit-making mutuality, has to confine its business dealings with its members only. As stated by the ICA Committee of 1937, this rule is "inherent in the cooperative idea". Any dealing with non-members would mean earning profit. However a cooperative may have to deal with non-members under special circumstances such as sale of goods to the general public by a consumers' cooperative when it acts as a fair price shop in times of rationing and price control or sale to a non-member to encourage him to become a member. However the profits earned on sale to non-members should not be distributed among the members as patronage dividend, but should be credited to the concerned non-members' deposit accounts and later transferred to their share capital when they become members. If this is not possible, such profit may be used for public welfare purposes.

6. Measures of Efficiency or success. The efficiency of all forms of private enterprises and that of public enterprises to some extent is measured in terms of the return on investment. Higher the rate of return, higher is the degree of efficiency. But this yardstick cannot measure efficiency of cooperatives, as they are service-oriented enterprises. Their efficiency and success is denoted by the extent of effective and adequate service rendered to their members. Active membership coverage and member-users' satisfaction are the index of their success.

7. Disposal of surplus. Net profit of single proprietorship is used according to his wishes, while the profit of partnership is divided according to the partnership agreement. In Joint Stock Company or a public enterprise, a part of the profit may be retained as reserve and the balance is distributed as dividend to the shareholders or government, as the case may be.

On the other hand, the surplus of a cooperative society is used for **a)** Paying a nominal rate of interest on capital, **b)** allocation to reserve fund, **c)** Paying patronage dividend to the member-users, and for allocations to education fund and common good fund.

The common good fund is used for the benefit of the local community. This is a manifestation of the social responsibility of a cooperative organization.

Thus, the enterprise characteristics of cooperatives significantly differ from those of other forms of enterprises. Unlike other forms of enterprises, cooperatives are service enterprises. Though effective management is common to all forms of enterprises, the ultimate aim differentiates cooperatives from other enterprises. While other enterprises are primarily meant for earning higher rates of profits for their owners, cooperatives efficiency is measured by the benefits rendered to the member-users.