

ACC

INTERNATIONAL SEMINAR
ON
PROMOTION OF INDUSTRIAL CO-OPERATIVES
IN EAST, CENTRAL AND SOUTHERN AFRICA

FINAL REPORT



Tanzania: Februari 22 - March 5, 1982

Kenya/Spain/Italy: September 1 - September 30, 1982

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PREFACE

*»The mainspring of progress is the accumulation of knowledge»
(Sir Geoffrey Vickers, 1968)*

Industrial co-operatives have attracted a rapidly growing interest in recent years, not least in the developing countries, as a means of economic and social development. In the industrialization process industrial co-operatives can serve as an important instrument of change when moving away from traditional handicraft to industrial production. Both governments and co-operative movements in the developing countries have shown keen interest in promoting industrial co-operatives through member/worker participation in industrial ventures. This growing interest, however, calls for a thorough examination of the potential of this kind of co-operatives, taking advantage of the accumulated knowledge in various countries and in different economic systems.

In order to analyse the need for and potential of industrial co-operatives in the industrialization process of some African countries a seminar was organized and sponsored by the Swedish Co-operative Centre (SCC). The main findings of the seminar are concluded in this report, which to a large extent was written by the participants themselves after each separate part of the seminar with the impressions still fresh. Only formal editing has been done afterwards. This means that the report might differ in style, form and tense and that repetitions are unavoidable. I believe, however, that these disadvantages are counter-balanced by the element of spontaneity expressed. It will hopefully also give the reader the possibility to realize how new ideas emerged and developed, as well as how the attitudes changed, as the seminar progressed.

I would sincerely like to thank the participants for their hard and devoted work throughout the seminar. Despite the tight programme, they managed to produce an impressive result during long discussions and plenaries summarized in various papers on which this report is based. Many thanks are also extended to all the local organizers (too many to be mentioned by name) in the countries visited, who contributed to the success of the seminar. Last but not least, a word of thanks to the typists of SCC, for their tireless efforts in deciphering the handwriting of the numerous papers produced throughout the seminar.

I sincerely hope that the knowledge accumulated by the participants will lead to the progress of industrial co-operatives in the countries concerned and also that this report will help to disseminate the knowledge to all those involved in industrial development in the African countries and elsewhere.

Stockholm, September 1982


Sten-Inge Larsson
Seminar Director

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1.1 Organizers

The seminar was organized by the Swedish Co-operative Centre in collaboration with the ICA Regional Office for East, Central and Southern Africa.

1.2 Objectives

The objectives of the seminar were as follows:

- to take a close look at the course of industrial co-operative development in the East, Central and Southern Africa and to identify the need for and potential of industrial co-operatives as well as the problems encountered in developing industrial co-operatives in the region
- to study the organization and functioning of industrial co-operatives, their trends of development on micro and macro level in Spain and Italy and the relevance to the conditions in the region
- to formulate suitable recommendations and guidelines for the region as well as for the countries represented, which will assist the respective countries to strengthen and accelerate the development of their industrial co-operatives.

1.3 The Concept of Industrial Co-operatives

The original idea was to cover both industrial and handicraft co-operatives in the seminar. It became, however, clear at an early stage that the term handicraft co-operatives in most cases meant purchase or marketing co-operatives only and very seldom production co-operatives. Although a universally recognized definition of the term industrial co-operative is lacking it is commonly understood that these co-operatives are engaged in production. For convenience and to avoid mistakes the seminar unanimously decided to use the term industrial instead of industrial/handicraft co-operatives thus stressing the central idea »whereby labour entrepreneurs, on the basis of one member one vote, form a democratical association or partnership and either hire or use their own capital to productive ends».

The working definition of industrial co-operatives adopted by the seminar is found in section 5.2.

According to this definition, handicraft cooperatives in which the members work together using common assets are covered by the term industrial co-operatives.

1.4 Dates and Venues

The seminar was divided into two clearly distinct phases:

- the Regional Seminar, which took place in Arusha, Tanzania, from February 22 to March 5, 1982
- the European Study Tour, which took place between September 1 and September 30, 1982 at the following venues:

Preparatory part:	Nairobi, Kenya	(September 1 to 4)
Study Tour Spain:	Northern Spain	(September 5 to 11)
Study Tour Italy:	Northern Italy	(September 12 to 23)
Concluding part:	Turin, Italy	(September 24 to 30)

Most of the participants also attended the UNIDO-conference on »Economic and Social Potential of Industrial Co-operatives in Developing Countries» which was held in Arusha, February 15 to 19, 1982 i.e. immediately preceding the Regional Seminar.

1.5 Programme

The detailed programme for the first phase of the seminar is found as Appendix 1 in the separate report from the Regional Seminar.

The detailed programme for the second phase of the seminar (The European Study Tour) is found as Appendix 1 of this report.

1.6 Seminar Management

Seminar Director responsible for the co-ordination of the entire seminar, the programme outline and methodology and for the European Study Tour:
Mr. Sten-Inge Larsson from the Swedish Co-operative Centre, Stockholm, Sweden.

Assistant Seminar Director responsible for the practical arrangements during the Regional Seminar and the preparatory part of the European Study Tour and resource person throughout the seminar:

Mr. Aly M. Kimario, ICA Regional Office for East, Central and Southern Africa, Moshi, Tanzania.

The study visits to the Mondragon Group in Spain was organized by Mr. Iñaki Aguirre, Public Relations Manager of the Group.

Responsible for the detailed programme and the arrangements during the Italian study tour was Mr. Djonkou N'Djonkou, Senior Lecturer Training, Co-operative Sector of the International Centre for Advanced Technical and Vocational Training in Turin.

1.7 Participants

Thirtysix participants from twelve countries attended the Regional Seminar. A list of these participants is found as Appendix 2 of the separate report from this phase of the seminar.

A number of thirteen participants from eight countries were selected from those participating in the Regional Seminar as participants in the European Study Tour. A list of these is found in Appendix 2.

1.8 Country Papers

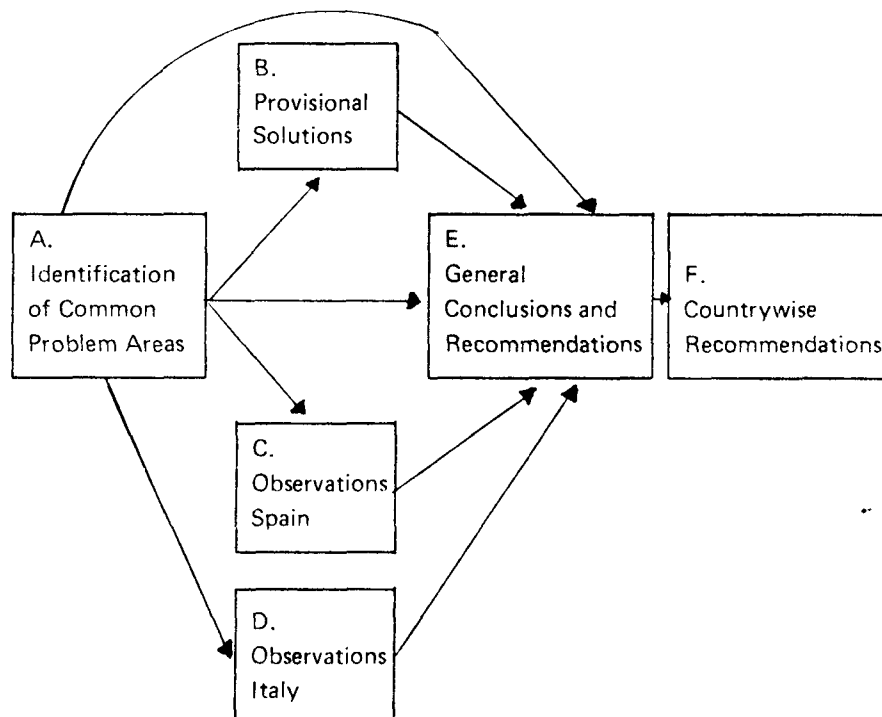
The participants of the Regional Seminar were asked to prepare countrywise background papers according to given guidelines. The papers were presented as backgrounds for the identification of common problem areas and are reproduced in the report from the first phase of the seminar.

1.9 Work Groups

To facilitate in depth discussions and analysis in smaller groups, the participants of the European Study Tour were divided into three work groups. The members of the three groups are indicated in the list of participants in Appendix 2.

1.10 Methodology and Structure of the Report

The methodology of the seminar is summarized in the following chart:



Based on the country papers, common problem areas were observed. These areas were assigned to work groups for further and deeper analysis. The result of the group work was presented and discussed in a plenary. In a second group work, the participants discussed possible solutions to the problems identified and presented their result as provisional solutions.

These two activities (the boxes A and B) took place during the Regional Seminar and the objective was to use the result as a background for the European Study Tour and for further analysis. A summary of these two activities is found in part two of this report.

For the European Study Tour, three work groups were organized. Each group was entrusted a specific problem area, grouped under the following three major headings:

- Group 1: Legal Arrangements and Organizational Set-ups
- Group 2: Institutional and Financial Arrangements
- Group 3: Education; Development of Managerial and Technical Skills; Matters Concerning Supply, Manufacturing and Marketing

During the visits in Spain and Italy, the members of the groups made their observations within their respective topics and submitted observation reports by the end of the tour in each of the countries. The sub-reports were presented and discussed in plenary sessions by the end of each part and are found in part three and four of this report (the boxes C and D in the chart).

The groups also wrote reports from the visits to various societies and organizations. These visit reports are presented in a separate Annex to the final report.

By this methodology, each group had to cover all the topics in the visit reports plus their specifically assigned topics in the observation reports and thus acquiring a broad as well as a deep insight into the functioning and mechanisms of industrial cooperatives.

Based on the problems identified, the provisional solutions and the observations from Spain and Italy (the boxes A-D in the chart), the participants started the final group work in order to conclude the relevance of the observations, the adaptation to the conditions in the region and to work out conclusions and recommendations within their respective topics (box E). The result of this exercise is presented in part five of this report. The seminar also discussed and adopted a working definition of industrial cooperatives during this concluding part.

With the background of the specific problems stated in the country papers and with the knowledge acquired during the seminar, the participants wrote down their recommendations for suitable activities in order to promote and strengthen industrial cooperatives in their respective countries (box F). These countrywise recommendations are found in part six of this report.

The participants were finally requested to formulate recommendations for follow-up activities, presented in part seven of this report.

To summarize:

- the methodology closely followed the three objectives of the seminar: identification of problems, observations in Europe, conclusions and recommendations
- the structure of this report follows chronologically the programme and also the methodology outlined
- the sub-reports from the various parts of the seminar were written by the participants and finalized after each part of the seminar.

**PART TWO: IDENTIFICATION OF COMMON PROBLEM AREAS AND
PROVISIONAL SOLUTIONS**

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2.1 Objective and Methodology

The objective of the first part of the seminar which took place during the Regional Seminar in Arusha was to take a close look at the course of industrial co-operative development in the countries represented and to identify the strengths and weaknesses and the main problems encountered as far as these co-operatives are concerned.

Twelve country papers were presented in a plenary session by representatives from the eleven participating countries, highlighting the socio-economic background, the state of the development of industrial co-operatives, their progress, problems etc. Based on these papers and also on the problems discussed during the preceding UNIDO-conference, some common problem areas were identified. To facilitate in-depth discussions and analysis and to ensure active participation of the participants, the problem areas were grouped as four major topics, each one assigned to a work group consisting of about ten participants. The topics and the assignments to the four groups were as follows:

Identify and discuss the problems highlighted in the country papers as regards:

Group one:

- a. Government policy relating to industrial co-operatives
- b. The absence of a clear legal framework to regulate the development and operations of industrial co-operatives

Group two:

- a. The absence of institutional support to industrial co-operatives
- b. Financial constraints that undermine the development and operations of industrial co-operatives

Group three:

- a. Inadequate member education and information in industrial co-operatives
- b. Inadequate technical know-how and skills in industrial co-operatives
- c. Inadequate managerial skills in industrial co-operatives

Group four:

- a. Supply (of equipment, raw materials and managerial resources)
- b. Manufacturing (inadequate technology, product quality, technical and managerial skills)
- c. Marketing (market research, marketing management).

Each group presented the analysis of its problem areas in a plenary session and after due consideration finalised the results as found in section 2.3 below.

In a second group work, the participants were requested to analyse and discuss alternative solutions of how to solve/overcome the problems identified during the first group work. These provisional solutions are found in section 2.4 below.

These two group works represent the A and B boxes in the methodology chart for the entire seminar as shown in section 1.10.

For detailed information about the country papers, reference is made to the final report from the Regional Seminar in Arusha.

Before summarising the problems identified, a short overview of the socio-economic background of the region in general is given in section 2.2.

2.2 General Socio-economic Background of the Region

Although the countries represented vary enormously in their climate, geography, cultural heritage and political situations, they share a number of common socio-economic characteristics and problems.

As a frame of reference, and as a background for the analysis of the potential of industrial co-operatives in the region some of these common features are summarised below:

1. With the exception of Ethiopia, the countries are small with populations less than 20 million.
2. Within the region are some of the poorest countries in the world.
3. 80% of the population live in rural areas.
4. Agriculture is the dominant activity providing the livelihood for over 70% of the population and accounting for 40 - 60% of the GNP's except in a few countries like Botswana and Zambia where mining is an important sector.
5. 50% or more of the export come from the agricultural sector.
6. For most of the countries the ratio of foreign trade to national product is high - 20% or more.
7. Exports are mainly concentrated on a few primary commodities while the small modern sector is heavily dependent on imports - as a result, these economies are very vulnerable to changes in external market conditions.
8. The manufacturing sector is usually very small and accounts for 10 - 15% of GNP at an average. Its contribution to employment is much less or about 5%.
9. The development of dual economies has resulted in an enormous gap between a privileged minority in the big cities and the majority in the rural areas.
10. The economies are severely handicapped by shortages of entrepreneurs, administrators and technical personnel, i.e. poverty is not only material but also immaterial with deficiencies in education, organization and discipline.

The trends in the economies of the region indicate a rather pessimistic end of the century for the region. Some of those trends are:

1. The full effects of the shocks of the 70's are not yet reached.
Examples: The food shortages due to a widespread failure in harvest and a

rapid population increase; the two oil crises which led to a radical decline in the terms of trade and in the purchasing power of the low income countries due to lack of possibilities to compensate for the rapid increase in oil prices.

2. The rapid population growth in the region, the highest in the world or about 3%.
3. A continuous and widespread stagflation in the developed countries which will further lower the demand and thus the prices for commodities imported from the developing countries.
4. High population growth, slow increase in productivity in the agricultural sector, lower demand for export commodities and thus low export prices etc. automatically means a decline in the GNP per capita.
5. Lower export prices, increased need for more import of food and oil at higher prices means a constant increase in the payment deficits of the region. This indicates a massive need for aid from outside.
6. The aid received will more or less be needed to buy food and oil, leaving very little over for development of the infrastructure, for education etc. This aid is also needed at a time when the economic health of the industrial countries is not very sound and when a reduction of the aid to the developing countries is considered in many countries.
7. The effect has created a great need for capital to cover imports without any substantial increase in the economic assistance from the developed countries. E.g. 1975 0.35% of the GNP from OECD was given as aid, in 1980 0.36%.
8. During 1975 to 1980 the trade deficit for the region in the balance of payment had gone up 6 times. The deficit has to be covered by loans at high interest.
9. In 1980, 70% of the loans were used for re-payments and interest on previous loans. Only a small part was left over for import and practically nothing for development of infrastructure etc.
10. An emerging tendency towards protectionism that will further hamper the exports from the developing countries.

To summarize, a very moderate growth in agricultural output, a very small and vulnerable industrial sector, a rapid population growth, a constant deterioration of the terms of trade, a rapid increase in the trade deficit etc. might result in a major crisis leading to mass unemployment, mass migration to the urban areas, mass starvation for millions of people etc. unless some dramatic changes can be made in the next few years.

One of the necessary steps would be to accelerate the industrialization process of the region in order to create job opportunities for all those unemployed or underemployed, to manufacture goods as substitute of expensive imports, to further process unprocessed commodities before exporting, to support the agricultural sector by providing it with inputs and processing its output, to generate capital etc. This process seems inevitable in order to avoid severe crises

as indicated above.

It is in this very complex context, that the potential role of the industrial co-operatives must be considered. Properly handled, the industrial co-operatives can play a vital role in the industrialization process in the region. One of the purposes of the seminar was to find out how this potential could be most efficiently developed and used in this process.

In several countries of the region, the Governments have already sponsored and supported the industrial co-operatives through active financial, administrative and legislative assistance, although the degree of support and assistance varies from country to country. There are visible signs of state policy in several countries of the region for greater emphasis on development of industrial co-operatives for the future.

2.3 Identification of common Problem Areas

Considering the problems and areas of weakness highlighted in the country papers presented in the plenary session and the discussions that followed, the seminar identified the following common problem areas in respect of the industrial co-operatives in the region:

2.3.1 Problems Related to Government Policy and Legal Framework

Government Policy

The seminar understood the term »Government Policy« to mean general rules of action or directives. In this context government policy on industrial co-operatives would refer to rules of action.

The following problems were identified:

1. The complete absence or inadequacy of a clear industrial development policy.
2. The consequent lack or inadequacy of a small scale industry and/or industrial co-operative development policy.
3. The absence or inadequacy of a planned development strategy for industrial co-operatives.
4. The complete absence or inadequate preparation of a machinery with the necessary resources at its disposal to implement policies on the development of industrial co-operatives.
5. The lack or inadequacy of clear credit and taxation policies for the particular development of industrial co-operatives.

The absence of a clearly defined policy on industrial co-operatives highlighted in all the countries represented has directly or indirectly contributed to the following symptoms:

1. Lack of managerial and technical skills. Because of the inadequacy of policy guidelines, training needs have not been clearly identified and implemented.
2. Lack of capital - because of lack of a defined policy the sector is often not

taken care of at the national budgeting level.

3. Inadequate research, product development, quality control and insecurity in the marketing of goods.

Legal Framework

The seminar felt that »Legal Framework« in each country should clearly define industrial co-operatives, for example, in matters concerning ownership, supporting agencies, rights and obligations of the supporting agencies.

The following problems were identified:

1. The complete absence or inadequacy of a legal framework (co-operative laws, statutes, by-laws) for the development of industrial co-operatives.
2. Due to the uniqueness of industrial co-operatives, no special reference has been made to them in the national co-operative acts.
3. Where supervisory powers and control are given to supporting bodies and/or government departments over industrial co-operatives they often create unfavourable atmosphere because these officials often go beyond their limits or are not given proper boundaries of action.
4. Industrial co-operatives by their nature require a high capital outlay which the authorities fail to comprehend and generally reject the plans. This has two possible effects:
 - it reduces the morale of industrial co-operators.
 - it dwarfs the general expansion of industrial co-operatives.
5. Industrial co-operatives are business enterprises. The legal framework allows for government officers to supervise these co-operatives, yet these officers, being administrators have no business acumen and are usually non-entrepreneurial. Their priorities therefore may not be in line with those of industrial co-operatives.

2.3.2 Problems Related to Institutional Support and Financial Arrangements

Institutional Support

In general there is lack of educational and extension services. Quite apart from that, and when viewed objectively, problems related to institutional support fall under two categories:

- Where supporting organizations exist without providing adequate services, and
- Where would-be supporting organizations are not in existence at all.

Problems related to the first category could be summarized as follows:

1. There tends to be a bias or prejudice towards establishment and support of industrial co-operatives.
2. The history of co-operatives in general has been characterised by problems, and potential supporting organizations have therefore been reluctant, if not

altogether unwilling to provide support to co-operatives as a whole (industrial co-operatives included).

3. The bureaucratic machinery in the day to day operations of the co-operatives militates against their obtaining requisite support from institutions.
4. In many cases government policy does not tend to give priority to co-operatives in general as emphasis is quite often laid on food production.
5. Financial mismanagement tends to lend suspicion on the ability of co-operatives in general and industrial co-operatives in particular, to conduct their affairs on sound economic principles.
6. The minority nature of the industrial co-operatives does not make them command adequate respect and recognition from the authorities.
7. There is lack of qualified and skilled manpower and technical know how within the supporting institutions.
8. There is lack of co-ordination between the supporting institutions resulting in absence of full support to industrial co-operatives. It is a case of the left hand not knowing what the right hand is doing.
9. There is lack of inter-co-operative relations.

Problems related to the second category:

1. Government policy is not clearly defined regarding industrial co-operatives.
2. There is lack of innovations and initiative by the people themselves.
3. At times industrial co-operatives are mushrooming without being backed by proper planning and adequate supply of equipment, raw materials, etc.

Financial Constraints

1. Lack of budgetary planning and control.
2. Late or non auditing of books of accounts making it difficult for would-be financiers to assess the financial position and economic performance of the industrial co-operatives.
3. Non-payment or late payment of entry fees and share capital.
4. Late or non-payment for services rendered to customers i.e. bad debts.
5. Embazzlement of funds by management and employees.
6. Absence of specialised banking institutions to cater for particular needs of industrial co-operatives.
7. Quite often production of industrial co-operatives is not market oriented with the result that much needed cash is tied up in slow moving stocks.

8. Prices of products are vulnerable to fluctuations.
9. Absence of proper pricing mechanism or systems for products.
10. Disloyalty by some members who bypass their co-operatives in selling their products.
11. Lack of raw material even when funds are available resulting in immobility of funds.
12. Where a number of industrial co-operatives are affiliated to a co-operative union through which they market their products, failure by the Union to effect prompt payment to the societies after sale of products causes liquidity problems within the societies.
13. Overpayment to members (by members themselves) drain the financial resources of the co-operatives. (This particularly relates to members allowances).
14. Corruption, nepotism and self-interest cripple desirable performance of industrial co-operatives.
15. Lack of insurance is a potential hazard to industrial co-operatives.
16. Inadequacy of capital as industrial co-operatives require a relatively high amount of fixed assets.
17. Where institutional support organizations exist there should be a two way process involving dialogue between such organizations and industrial co-operatives.

2.3.3 **Problems Related to Education and Development of Managerial and Technical Skills**

The seminar took into consideration the level of education and understanding of co-operators, more so from the grassroots point of view. With this in mind, the following problems were identified:

Inadequate Member Education and Information in Industrial Co-operatives

1. Low member education as regards the fundamental principles upon which co-operatives thrive.
2. Lack of education to adjust to changes e.g. consumer behaviour, product planning, etc.
3. Lack of positive approach by trainers to members.
4. Lack of incentives and rewards.
5. Lack of commitment and enthusiasm by members and co-operative organizers.
6. Lack of training.

7. Lack of training for courses that would yield immediate results.
8. Lack of development of suitable training-materials.
9. Inadequate flow of information within the organization itself and the outside world such as information from supporting agencies on a two way basis and information about possible competitors.
10. General illiteracy of members and managers is a serious constraint as regards proper implementation of policy guidelines.

Inadequate Technical Know-how and Skills in Industrial Co-operatives

1. Lack of technical training facilities.
2. Lack of production skills.
3. Lack of product designs, planning and development to suit both the local and the international markets.
4. Lack of skills as regards time and material saving.

Inadequate Managerial Skills in Industrial Co-operatives

1. Poor performance in the areas of cost and quality control.
2. Poor financial management.
3. Poor marketing strategies.
4. Poor co-ordination.

2.3.4 Problems Related to Supply, Manufacturing and Marketing

Supply

1. Due to scarcity of foreign exchange, it is not always possible to purchase and import machinery and other equipment required by industrial co-operatives. National Governments confronted with more pressing development programmes tend to give less priority to foreign exchange allocations for purchase of equipment for industrial co-operatives.
2. Where foreign exchange does not pose serious problems, there still exists the problem of industrial co-operatives not having sufficient information regarding quality, functions, prices and supplies of the equipment needed. Quite often, there are no sales and service agents for imported equipment.
3. There is no co-ordinated supply of equipment with machinery.
4. There is a general lack of co-ordinated and collective supply of machinery (from one reliable supplier) fully backed with after-sales services and spares. This makes the purchase of machinery costly - a phenomenon which is in turn reflected in the cost of the finished products.

5. In some cases, machinery imported are not adaptable to local conditions, either because they are too sophisticated, or because there are no facilities for proper servicing and maintenance.
6. Although a good number of industrial co-operatives do not require imported machinery or tools, there is a general lack of improved technology in the local production of such tools.
7. There are instances where obsolete machinery is imported (sometimes having been reconditioned) with no spare parts forthcoming as these may no longer be in production. This renders the machinery useless in case of breakdown.
8. Importation of machinery may require that they are accompanied by technicians from the supplying firm/country to install them and run initial production tests. This adds to the costs of the machinery and may not be readily acceptable by authorities in the importing country.
9. Importation of machinery may be hampered by trade restrictions imposed on some countries and/or strained diplomatic relations between countries.
10. The all too-common problem of inadequate transport.
11. In many cases, there is a general shortage of raw materials used in industrial co-operatives. Where these are available, their prices are often inflated, resulting in turn in inflated price of the end product.
12. Lack of adequate funds for purchase of raw materials.
13. Lack of technical expertise to innovate substitute for raw materials.
14. Unusually high transport costs for raw materials affect not only the cost of production but also result in a low turnover.

Manufacturing

1. There is an acute shortage of skilled managerial personnel to man industrial co-operatives.
2. For those industries located in the rural areas, conditions in such areas are not sufficiently conducive to attract skilled personnel.
3. There are no elaborate training programmes to cater for (especially) the semi skilled workers.
4. There is a general lack of incentive and career development opportunities for managerial personnel of industrial co-operatives.
5. In addition to the problems posed by lack of suitable equipment and technical skill which hamper production in industrial co-operatives, there is also the problem of unreliable power (electricity) supply which affects both production and the quality of the product.

6. Lack of proper quality control measures.
7. Lack of local designers.

Marketing

1. Lack of qualified researchers who can probe into the market requirements and customers' needs.
2. Where research has been carried out, effective and pragmatic use of the research findings has failed.
3. Lack of competent designers for products that would appeal to the markets.
4. High production costs rendering high prices to the product thus discouraging potential buyers.
5. Lack of product publicity and advertisement.
6. Lack of institutional support in securing steady markets.
7. Lack of information on market outlets.
8. Lack of distribution facilities such as transport and storage.
9. Absence of market development plans.

2.4 **Provisional Solutions to the Problems Identified**

Based on the problems identified and presented in section 2.3 above, the following provisional solutions were worked out:

2.4.1 **Solutions to Problems Related to Government Policy and Legal Framework**

The absence of a clearly defined policy relating to industrial co-operatives has been identified as a major setback to the development of an industrial co-operative sector. This shortcoming has consequently resulted in an absence or inadequacy of a proper legal framework to facilitate the efficient running and operation of such co-operatives in many of the countries represented in the seminar. The following solutions are suggested:

1. Since industrial development cannot function in a vacuum the need prevails for an industrial development policy which has to be in consonance with the development of other sectors of the national economy. This will create a conducive atmosphere for an industrial co-operative development policy. It is therefore recommended that the national government of each country represented in the seminar become persuaded to consider formulating a clear industrial co-operative development policy. Where there is complete absence of such policy, the ICA, through its affiliated national apex organizations should urge and convince national governments to formulate and implement such a policy. In countries where the ICA is not in full operation, co-operative unions through their general assemblies should urge their national governments to develop industrial co-

operative policies. In other countries political parties could be equally mobilised towards achieving this end. The fact that ICA is not a governmental organization its intervention in some countries might cause hostile reactions. Where ICA ideas are not in line with government policies this may inhibit the level of acceptance of its ideas in the countries concerned.

This limitation, however, could be offset by the fact that often the ICA is accorded international status and many countries readily accept its ideas.

2. Governments, through their co-operative development departments should set up units whose duty should be to lay down the groundwork and set up policy guidelines for the development of industrial co-operatives, which should be in line with the general industrial development policy of the respective countries. Although these units may financially burden some governments they have the advantage of serving as information centres or information banks which could collect potential data, keep specific records and employ technical and research experts in the field of industrial co-operatives.
3. Supporting Organizations or promotional bodies (e.g. SIDO in Tanzania, HASIDA in Ethiopia) should be established and given the necessary power and responsibilities. Their duties should include the creation and implementation of planned development strategy for industrial co-operatives. Where such organizations are lacking, a national committee could be formed to take care of such matters. These supporting organizations should be able to screen all ideas and to utilize the relevant ones. At the same time they may be able to tap technical aid and assistance from outside bodies.
4. Governments, through their financing agencies and commercial banks, should establish credit policies favourable for the development of industrial co-operatives. The policies should include lower interest rates with extended loan repayment periods. Industrial co-operatives should also be subject to favourable tax policies, tax exemptions in the early stages, tax holidays and lower tax rates.
5. Co-operatives within each country should be encouraged to create co-operative banks which will avail lending facilities to industrial co-operatives.
6. A clear legal framework for industrial co-operatives, where this is lacking, should be formulated in line with the general industrial development policy of the country. Where co-operative acts exist more emphasis should be placed on industrial co-operatives and powers and duties should be clearly defined and assigned to the relevant support organizations and agencies.

2.4.2 Solutions to Problems Related to Institutional Support and Financial Arrangements

Institutional Support

1. Guidelines in the implementation of government policies, i.e. how, when and who should be worked out.
2. The history of the industrial co-operatives has been characterized by prob-

lems, hence the reluctance to support them. This state of affairs could be rectified by:

- training of the personnel in managerial skills for improved performance
 - education not only of the managerial staff but also of all the members and technical personnel.
3. Provision should be given in the by-laws for flexibility to minimise bureaucracy.
 4. Industrial co-operatives should endeavour to be represented in supporting institutions.
 5. A co-ordinating forum for the supporting institutions should be set up. Common areas of co-ordination should be identified and implementation programme instituted.
 6. An apex organization to co-ordinate the activities of all the industrial co-operatives should be organized.

Financial Arrangements

1. Training in accounting and management skills should be emphasized and this emphasis should be provided for in the by-laws.
2. Budgets and budgetary control should be carried out by a competent staff. Terms and conditions of service should be attractive and favourable so as to attract competent personnel capable of carrying out the above functions.
3. The by-laws should be flexible to allow engagement of external auditors where it is necessary and possible.
4. An inspectorate team should be established to visit the societies and ensure maintenance of up to date book-keeping.
5. There is need for proper member education before the co-operative is formed so that they are aware of their duties, rights and responsibilities, especially as regards membership fees, shares, etc.
6. Members should be informed of the day to day duties within the organization.
7. Surprise checks or visits by audit inspectors should be made.
8. Internal auditing system should be established in the entire co-operative movement.
9. Stringent measures should be taken against those who embezzle societies funds.
10. A financial committee of the society should ensure that the up to date maintenance of the books of accounts and balances is carried out.
11. Financial institutions should be established where they do not exist. Where

they exist, industrial co-operatives should have enough representation in their Board of Directors.

12. A proper pricing mechanism should be implemented.
13. There is need for enforcement of the by-laws as regards the case when members sell their products to their societies. Whenever members deliver their products to their society, they should be paid promptly.
14. Societies should keep optimum order quantity, when ordering raw materials.
15. Availability of raw materials within the locality should be investigated before an organization is formed so that at any time there will be ample supply.
16. Preference should be given to industrial co-operatives when allocating raw materials by national companies and organizations.
17. Unions should pay promptly for services rendered, for goods delivered to them by industrial societies.
18. Part of the surplus if not all of it, should be ploughed back into the business so as to strengthen the societies.
19. Allowances to be given to members should be set in proportion to the volume of total turnover.
20. Industrial co-operatives should be adequately insured.
21. Members should be encouraged to increase their share capital.

2.4.3 Solutions to Problems Related to Education and Development of Managerial and Technical Skills

Member Education and Information

1. Definite programmes should be set up in the societies to ensure that members are taught the overall objectives of the principles of co-operation and their application in as far as the functions of the organization are concerned.
2. Sharing of co-operative experience by co-operators should be encouraged in the form of exchange programmes.
3. A distinct and regular training programme of members/workers should be implemented which would lead to adopting the new technologies and techniques in order to assess changes in consumer behaviour or tastes, as well as market patterns.
4. Trainers and co-operative organizers should adopt positive attitudes towards co-operators and must be sufficiently equipped with pedagogical methods in order to achieve the desired goals.

5. The co-operatives should be designed and organized in a way to inspire members/workers participation by way of creating conducive atmosphere.
6. Financial commitment by members/workers pertaining to share capital should be a pre-requisite like in the Mondragon experience.
7. There should be adequate financial benefits, awards and incentives for members/workers.
8. Suitable materials and teaching aids should be developed which are relevant to the training of members/workers.
9. An effective reporting and information system should be introduced within the organization in the form of general and management meetings on matters related to production, marketing, financial and progress reports.
10. Information affecting and relating to development of co-operatives should be made available by supporting agencies.

Development of Technical Skill

1. Co-operatives must develop suitable training facilities geared towards improving members/workers technical skills (on the job training).
2. A fund should be established to support the technical training programmes.
3. Research programmes and feasibility studies should be conducted as regards designs, production lines, and marketing strategies.
4. There should be specialisation by members/workers in the field of production and marketing.

Development of Managerial Skill

1. Qualified personnel should be recruited to manage the organization.
2. In case of expatriate personnel there should be local counterparts to understudy them in order to maintain continuity of services.
3. Refresher courses, seminars and correspondence courses should be offered to members/workers.
4. Specific financial procedures/regulations and policy guidelines should be clearly stated (i.e. auditing, accounting, budgeting, costing and quality control policies).

2.4.4 Solutions to Problems Related to Supply, Manufacturing and Marketing

Supply (Equipment, Raw Material and Managerial Resources)

1. An organization should be formed (preferably by the government) to take care of the industrial co-operatives in every aspect - for instance:
 - purchase and transportation of raw materials and finished products
 - providing training to staff as well as members of the co-operatives.

A good example of such an organization is Tanzania's SIDO and Ethiopia's HASIDA. The main problems with the formation of such an organization is that many developing countries have not recognized the importance of industrial producer co-operatives, and consequently pay very little attention to this sector.

When national governments have recognized the role of industrial co-operatives, it would be much easier for them to give priority to such organizations especially in so far as allocation of scarce foreign exchange for purchase of raw materials and equipment is concerned.

2. Since industrial co-operatives are relatively young and susceptible to various problems, e.g. lack of capital, government should be requested to purchase machinery from foreign suppliers on behalf of the co-operatives. The machinery could then be given to co-operatives on a medium term loan arrangement. The main argument in support of this suggestion is that the industrial co-operatives will be exporting their commodities thus in turn earn the country foreign exchange.
3. Industrial co-operatives should raise their own working capital without relying on external sources. This can effectively be done through purchase of additional shares by members; establishment of thrift and loans societies by members; ploughing back (reinvest) most of their annual surplus rather than dividing it among themselves as dividend. It is also suggested that the government should be asked to establish co-operative banks or to form a sector within the commercial banks (as is the case in Tanzania) which would be used to finance industrial co-operative societies.
4. The organization which has been suggested above should be able to co-ordinate the requirements of industrial co-operatives such as machinery and raw materials from all the societies and then make a collective purchase from one source so as to utilize discount facilities offered. Moreover, by collective purchase by one organization, it is possible to choose appropriate machineries which are easily adopted to local conditions. It would also be easier to get a steady supply of uniform spare parts.
5. It is suggested that governments should establish technical training centres in their countries (e.g. the Mbeya Artisan Training Centre in Tanzania). These centres should be run by the organizations suggested above and should be used to train members and workers of the societies. The centres should also carry out research on the availability of raw materials, market potentials and technical skills required.
6. Societies which are located in the rural areas should endeavour as much as possible to provide social activities, such as playing grounds and recreational

facilities. They should also try where possible, to offer attractive salaries. Thus attract young talents to work in the rural areas, and minimising the all-too-common problem of youth migration into the urban areas.

7. For those industrial co-operatives located in urban areas, the most effective incentive should be the provision of good working conditions, provision of good training, career development opportunities and a proper selection of a disciplined and dedicated staff.

Manufacturing

The problems emanate mainly from the following factors:

- failure to improve tools (in case of handicraft co-operatives)
 - inadequate technical know-how on the use of modern machinery and tools
 - lack of quality control mechanism
 - use of obsolete machinery
 - lack of skilled and trained designers
 - lack of incentive to workers
 - failure to tap technical knowledge from expatriates
 - failure to provide managerial and technical training programmes for the staff and members.
1. It is suggested that many of the identified problems would be overcome if training centres could be established together with adequate training facilities, since they would offer the theoretical knowledge as well as practical skills. Research is quite relevant as far as appropriate technology and product quality are concerned. It is therefore suggested that the organizations which would be established should have research and development departments.
 2. In order to maintain good product quality, industrial co-operatives should be advised to introduce standards of products in terms of size, colour, weight, design and taste according to customers' demands. Employees have to be closely supervised, incentives should be given to them as suggested earlier, and also a method should be introduced of awarding prizes to those outstanding individuals who show initiative and creativity.
 3. It is suggested that the organization should help in securing enough and proper expatriates for industrial co-operatives. Expatriates should properly be chosen, only those who are competent and willing to impart knowledge and skills to local personnel should be selected, and evaluation should occasionally be conducted on the work done by these local staff to see if they are gaining knowledge from expatriates.
 4. It is also suggested that the organization entrusted with the task of promoting industrial co-operatives should try to simplify managerial and technical training programmes so as to be easily understood by local technicians.

Marketing

1. Most of the problems concerning marketing would be overcome after establishing an organization with the sole purpose of promoting the development of industrial co-operatives in a country.

As it was earlier suggested, this organization would have a »research and development« department among other departments. This department would have trained researchers who would carry out research related to different fields including »market research«. The advantage of using researchers is that they will all be centrally placed at the headquarters of the organization and therefore it would be easier to co-ordinate their efforts and control their movements. In this way, a bigger area could be covered. The organization can be able to ensure that all the research findings are effectively utilized for the development of industrial co-operatives.

2. It was previously suggested that several technical training centres should be established by governments. These should be used to train local designers and management personnel. By using local technical centres, enough skilled personnel would be trained and then go back to teach their fellow members /workers in the co-operatives. The local training should be supplemented by a few scholarships and study tours offered to the members and workers of industrial co-operatives through governments, ICA and other international organizations.
3. It is also suggested that there should be exchange programme between African countries, whereby members and workers of different co-operative societies from one country could visit other African countries so as to make it possible for exchange of experiences and ideas.
4. Many of the items produced by industrial co-operatives are sold at higher prices than those produced by, say, individual entrepreneurs. Co-operatives assert that their prices are higher because their operational costs are also higher. This is probably a question of member education. It is felt that selling prices are inflated not because of high production costs but because of dividends.
5. It is also suggested that industrial co-operatives should be advised to minimize their overheads by avoiding over-employment and other unnecessary expenses. They should also adhere to their annual budgets.
6. One of the most important factors in marketing is »publicity«. The organization responsible, with the help of the government, should make sure that products made by industrial co-operatives are advertised through mass media, by participating in district, regional, national and international trade fairs, by participating in exhibitions and displays. Each society should be advised to have public relations officer, and salesmen.
7. The government should be asked to issue directives to all its ministries, departments and public corporations to buy articles or issue tenders to industrial co-operatives, rather than to individual entrepreneurs. Governments should also be asked to issue directives to public transportation companies to ferry equipments, raw materials and finished products owned

by industrial co-operatives before this is done to goods owned by individuals.

8. Co-operative groups should be advised to jointly purchase their own trucks if they can afford, as this will effectively solve the problems of distributing finished goods to the markets and also to transport raw materials and new equipment to the societies. If this is not possible, then they should be advised to jointly organize hiring trucks from public transport companies. The advantage of collective transport is that cost per unit is minimized.
9. Each industrial co-operative should have enough storage facilities so as to ensure safety of both raw materials and finished products.
10. Lastly, it is suggested that strong intertrade relationship between consumer and industrial co-operatives is established in order to ensure efficiency in their respective performance.

PART THREE: OBSERVATIONS FROM THE STUDY TOUR IN SPAIN

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3.1 Objective and Methodology

3.1.1 Objective

The objective of this part of the seminar was to study the organization and functioning of industrial co-operatives and their trend of development on micro and macro level in Spain (the Mondragon Group).

3.1.2 The Mondragon and the Basque Region

The main reason for visiting Spain was to study the Mondragon Group of co-operatives in the Basque region. The group has won a worldwide recognition as a highly successful experiment in industrial co-operation. Thus all the observations made are from co-operatives within this group and do not represent the situation for industrial co-operatives in Spain in general.

The Basque region comprises the northwest part of Spain and includes the provinces of Alava, Gipuzcoa and Biscaya. The Basque people have a long history, their own language, traditions etc. and thus represent a strong cohesive society within Spain. The population amounts to 2.1 million of which about eight thousand are in the active age. About 44% of those gainfully employed are within the industrial sector, 8% in the building sector, 7% in agriculture and 4% in the service sector. The number of unemployed is high, at present eightyfive thousand.

3.1.3 Methodology

The study tour in Spain took place from September 6 to September 10, 1982 (for details, see programme in Appendix 1).

After an introduction to the social and economic situation in the region, one day was spent in Mondragon visiting the Caja Laboral Popular, where the overall activities of the group and the Bank in particular were presented.

Three other study visits were made during the period:

- to the Eskola Politeknikoa (Polytechnic School)
- to the URSSA Industrial Co-operative Society (Manufacturing of heavy metal structure and installations - 318 members)
- to R.P.K. Co-operative Society (Manufacturing of spring products - 68 members)

Responsible for the detailed information in Mondragon and for the study visit programme was Mr. Iñaki Aguirre, Public Relations Manager of the group head-quarter.

The participants made their observations on the topics assigned to the groups according to section 1.9. The observations are presented in the following sections. The observations represent box C in the methodology chart in section 1.10.

The group also made reports from the study visits. Those visit reports are found in a separate Annex to the final report.

All figures in USD have been calculated at an exchange rate of 110 ESP (Pescetas) for one USD.

3.2 Development and Present Status of the Mondragon Group of Co-operatives

3.2.1 Brief History

Mondragon is a small town in the Basque region some 60 km from Bilbao. It is the centre of a closely linked group of co-operatives, mainly industrial. The Mondragon community owns an incalculable debt to one man, a Basque priest called José Maria Arizmendi (Father Arizmendi). After studying the economic situation in Mondragon, where he came as a young priest, after the civil war (1942 - 43), Father Arizmendi found the main problems being:

- unemployment and
- lack of industrial training.

Father Arizmendi started to work with the young Basques in various social activities and also started a small training workshop (in metal) where the young Basques could be trained and afterwards gainfully employed. He also persuaded the Mondragon people and the local authorities to co-operate in setting up a technical college to train the sons of workers of the town.

After 13 years of hard work the first industrial co-operative was established in 1956. Five young men, who were graduates of the training school and employed in a capitalist factory, thought it would be more helpful to form their own co-operative. Thus the first industrial co-operative, known as ULGOR (after the initial letters of their surnames) was launched in 1956. The financing of the operation again reflected the good will of the community and about 100 people came forward offering financial support. It started with a labour force of 23. From the first industrial co-operative of 23, in 1956, the industrial group in Mondragon today has about 18.500 workers/owners.

Later as the need for capital was much felt, father Arizmendi contacted the first industrial co-operatives, and the public in general and convinced them to save and started the bank, Caja Laboral Popular which came into operation in 1960.

3.2.2 Present Status

Today, the Mondragon group provides about 20.000 full time jobs in 155 co-operatives of different types:

- 93 industrial co-operatives (18.500 jobs)
- 36 school co-operatives
- 14 housing co-operatives
- 5 service co-operatives (social security, medical and hospital service, laundry and meal service, education and cultural service, the social club)
- 4 agricultural co-operatives
- 1 consumer co-operative
- the Bank, CLP

The technical College (not formally part of the group, but acts as its educational centre).

The total turnover of the group in 1981 was approx. ESP 100 billion or USD 900 million. 25% of the turnover was exported.

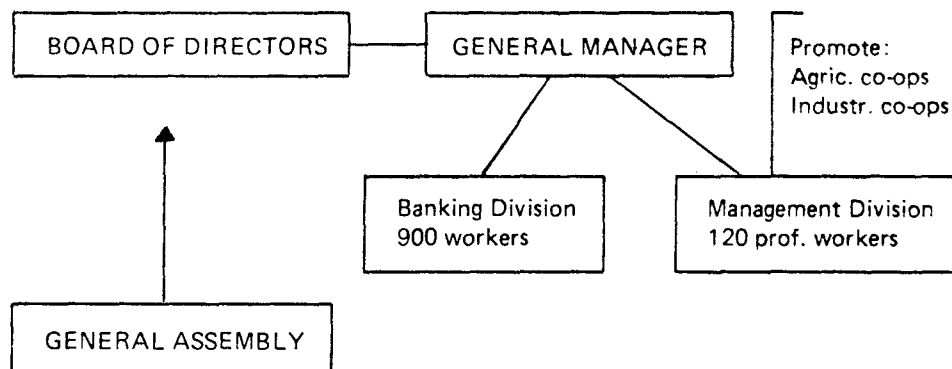
The number of people employed represents 3% of the active population in the Basque region. The turnover of the group is approx. 5% of the net production of the region.

3.2.3 Caja Laboral Popular

The bank has two divisions:

1. Division Economica (The Banking Division), raising money from the public. At present the Bank has 120 branches in Mondragon and other places in the Basque region. Since its foundation in 1960, the resources has grown to ESP 70 billion or approx. USD 640 million. The division has a staff of about 900 workers.
2. Division Empresaria (The Management Division), with about 120 professionals, the group headquarter, rendering all kinds of managerial and promotional services to the co-operatives of the group.

The structure of the Bank is outlined in the following chart:



The General Assembly is composed of proportional representation from the workers in the Bank (45%) and the co-operatives of the group (55%) and is the supreme body of the Bank. It elects the Board of Directors, 12 in all - 8 representing the movement and 4 elected from the staff of the Bank. The Board of Directors elects the Chairman. The General Manager is appointed by the Board of Directors.

The other managerial staff is appointed by the General Manager. The relation between the Bank and the societies is regulated in a so called Contract of Association, further described in section 3.3.1.

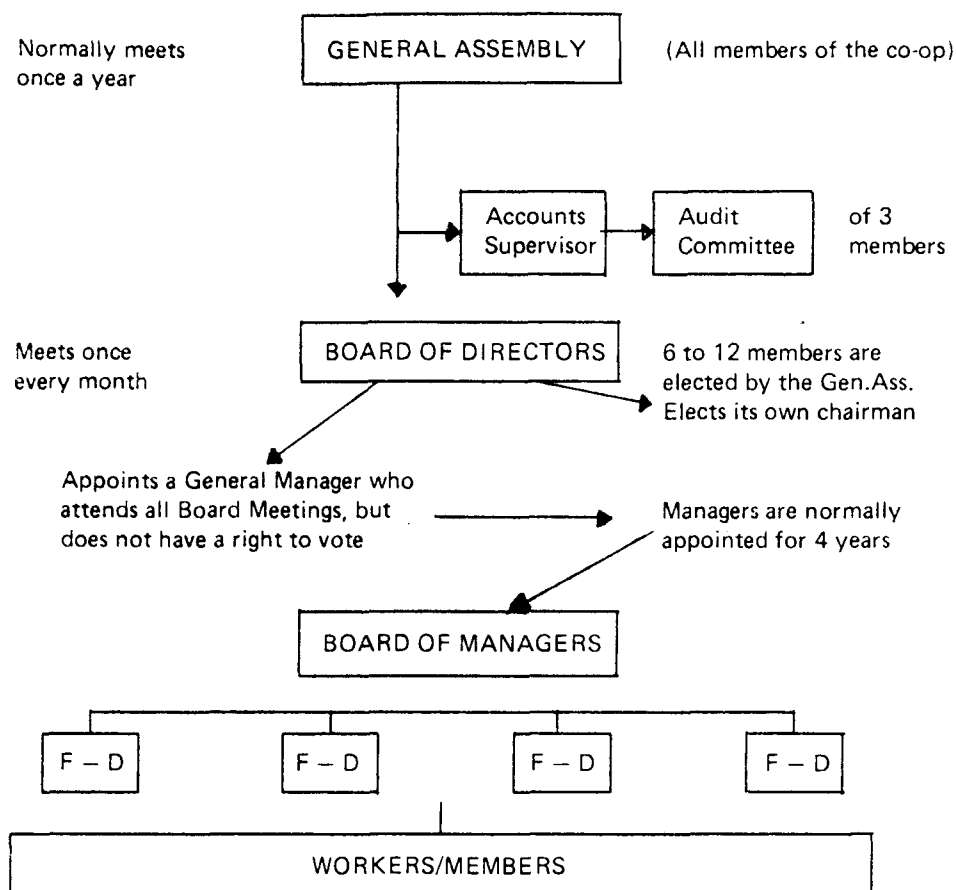
3.2.4 Structure and Other Characteristics of the Mondragon Co-operatives

Social and Executive Structure

The basic organization structure of the Mondragon industrial co-operatives has evolved over the years in the light of practical experience, within the limitations

of existing Spanish Co-operative law. The statutes of each co-operative vary to a limited extent from each other, but all must conform to the standard Contract of Association with the Caja Laboral Popular.

The common structure of a primary society is shown in the following chart:



A Social Council is also elected to look after the discipline, to voice the opinion of members and to look after the working conditions, etc. The members are elected at the ratio of 1 representative per 20 employees. It meets monthly and deals directly with the General Manager and the Board of Directors. This council does not have any decision power unless the Board of Management decides otherwise.

Launching of New Co-operatives

When an application to form a new co-operative comes to the Bank, the members must contribute USD 5.000 - representing 10% of the initial cost, 10% is provided as loan from the Central Government and the balance 80% is given by the Bank as a loan. The Bank also provides the following promotional services: Feasibility studies for any new project, Training of the group leader, Loans for the standard minimum entrance fee for all the members. The entrance fee payable, is USD 4.500 over a period of two years, with a minimum initial payment of USD 600.

The Co-operative Principles

Although the group has not formally adopted the ICA principles for co-operatives, the following principles are adhered to:

1. Open membership (workers are members and members are workers)
2. Democratic control (one man/one vote, irrespective of the number of shares)
3. Limited interest on share capital (6% interest).

Wage Differentials

Since the early days of the movement it has been decided that wages within a society should only vary within the ratio 1 to 3. The ratio of 1 to 3 is laid down in the Contract of Association between the Bank and the co-operatives. The contract provides, however, that senior professional and executive staff may receive supplementary payments, to take account of special responsibilities and long hours, up to a maximum of 50% of their normal salaries.

Distribution of Surplus

The surplus is divided as follows:

- not less than 10% to social and community activities
- not less than 20% to a reserve fund
collectively owned - never to be distributed. This reserve fund can be increased by a decision of the General Assembly
- a maximum of 70% to be returned to the workers/members, in practice re-invested

This reinvestment policy is very important. Each worker has a capital stake in the society. The return is credited to the member's account and will be given to him when he is incapacitated to work, or retire.

Federations

There are 10 Federations organized either on a regional or a sectorial basis to cater for the common needs of primary societies.

Keys to the success

At one level, the key to Mondragon's success lies in the carefully designed superstructure of the group. Central to this is the Bank which in addition to lending capital is the group's strategist.

At another level, is the central fact of worker/ownership, which allows rapid adjustment to changing economic circumstances and the flexible distribution of resources on the basis of consent.

Two key words are often referred to in Mondragon namely social and financial commitment: The social commitment is very high by tradition in the Basque society and the community support is thus a very important factor. The financial commitment is also very strong hence the requirement of an entrance fee and the arrangements whereby the individuals have their part of the surplus reinvested in the business as personal (credit) accounts.

3.3 Observations

3.3.1 Observations on the Legal Arrangements

National Co-operative Law

The law of the Government on co-operatives in Spain was formulated in 1974. This is the national law on which all co-operative undertakings are registered. It therefore follows that the various internal laws of individual units must fall within the limitation of this law. The law of 1974 was reviewed in 1978 after the end of the dictatorship.

The Spanish co-operative law and the Contract of Association prescribes the following on the distribution of profit:

- Each industrial enterprise must transfer not less than 20% of net profits to collective reserve funds and not less than 10% must be contributed to finance social services for the community as a whole.

Contract of Association

The co-operative undertakings under the general co-operative law, must also succumb to the internal co-operative law developed by the Bank. This is known as the Contract of Association of the Caja Laboral Popular. The main features of this contract are as follows:

1. Wages are fixed on the ratio 1:3 and in special cases the ratio varies from 1 to 4.5.
2. All workers are members and all members are workers. Only 3% of the total labour force can be employed as non-member workers.
3. Distribution of profit:
 - a. Not less than 10% of the net surplus must be contributed to finance social services for the community as a whole. This requirement is also stated in the Spanish Co-operative Law.
 - b. Not less than 20% of the net surplus should go to the collective reserve funds.
 - c. 70% of the net surplus should be made available as distributed returns to the members in the ratio 3:1, the same differential as for wages.

Other Basic Regulations and Statutes

These too must fall within the limits of the Contract of Association.

1. Open membership
2. Democratic Control
3. Annually realised surplus credited to capital accounts of members are not normally withdrawable.
4. 6% interest of the capital contribution by members is normally credited to members account and this could be withdrawn in cash when conditions permit.

5. All capital accounts are periodically adjusted upwards to compensate for the inflation.
6. Losses are dealt with in precisely the same way as profits.
7. During the formation of any new co-operative society the workforce is expected to raise roughly 10% of the total capital required.
8. A further 10% is made available from the Basque Government from a special loan fund provided for the promotion of new co-operative enterprises.
9. 80% is normally put up by the co-operative bank.
10. There should be group cohesion and solidarity. This solidarity will be essential for provision of social services like education.

3.3.2 Observations on the Institutional Arrangements

The group of co-operatives receives institutional support at four levels namely:

1. *Government*

The Spanish law on co-operatives is in itself a tool of guidance. For example, it calls for a creation of social fund by all industrial undertakings. The group also receives a 10% public loan from the Government.

2. *The Bank, Caja Laboral Popular*

CLP is in essence a promotional organization seeking to enhance the performance of its affiliated industrial co-operative units. In this regard, the Bank offers the following services:

1. Marketing of the products of the group both local and international if the society lacks its own marketing organization.
2. Management and engineering consultancy. This service is important because experience has shown that management weakness is the major problem of the industrial co-operatives. Engineering consultancy looks at designs of plants, execution of projects etc.
3. Finance: the Bank provides loans to industrial undertakings at low interest rates. (8%).
4. Preparation of projects, planning, appraisal, evaluation and monitoring of all new entrants to the group.
5. General co-ordination and supervision.

3. *The Technical College*

This college has been established to provide skills to the community. The graduates either mobilize themselves into industrial co-operatives or seek other employments. The college is a community project and thus receives financial assistance from the Bank, the local community and the local authorities.

4. *Federations*

The federations have been set up at:

1. Sectorial level to handle problems of a technical nature
2. Geographical level to handle administrative problems

3.3.3 Observations on Financial Arrangements

The group observed that there are six known financial sources:

- | | |
|--|---------------------------------|
| <ol style="list-style-type: none"> 1. Entrance fees and shares = 10% 2. Loan from public finance = 10% 3. Loan from CAJA Laboral Popular the Bank, with 2- years grace period = 80% | of the initial capital required |
| <ol style="list-style-type: none"> 4. The reserve fund 5. Reinvested surplus 6. Exemption from Business/ Corporation, profit tax. | |

Entrance fees and shares

Legally a minimum of 7 people can form a co-operative (in theory). In practice it often requires 20 people.

The amount paid as entrance fees and shares is dictated by the amount reflected in the feasibility study. The total amount raised through these means should be equivalent to 10% of the total investment as spelt out in the feasibility study.

Finance from Public Funds

This is an additional amount sought as loan from the public finance which is equivalent to the amount collected as entrance fee and shares. This is usually long term loan for the financing of fixed assets.

Loan from Caja Laboral Popular (The Bank)

The Bank provides the remaining cost of enterprise as reflected by the feasibility study, which is usually 80%.

The Reserve Fund

This is usually 20% of the annual surplus. The reserve fund is commonly owned by the members and none has the right to claim it.

Reinvested Surplus

This is normally 70% of the annual surplus which would otherwise have been distributed as dividends to the members but reinvested and only released when a member retires or otherwise leaves the society. (It is credited to the individual member accounts.)

Exemption from Corporation Tax

At the first 10 years infant stage of the societies, the Government exempts the societies from paying the Corporation tax (33% of surplus). This helps in stabilizing the liquidity of the societies.

3.3.4 Observations on Training and Educational Arrangements

There is not any fixed curriculum for Co-operative education. The following educational and training institutions have some relationship towards education for skill development in the region:

1. ESKOLA POLITEKNIKOJA (The Polytechnic)
2. SN - Training school for school masters
3. ETEO - Marketing and Administration school.

Eskola Politeknikoa

The Polytechnic School is training personnel for industry in general and industrial co-operatives stand a chance to get a place in the school like any other firms.

Like any other firm the industrial co-operatives use the Polytechnic School for training courses for their members and in such circumstances the co-operatives meet the training cost.

Training School for School Masters

It is very much divorced from the Co-operatives. It only trains school teachers for the region.

ETO (The Marketing and Administration School)

Operates like the Eskola Politeknikoa in marketing and administration.

3.3.5 Observations on Matters Concerning Supply, Manufacturing and Marketing

Input Supply

It was noted that raw materials are easily available from the local markets and could be imported without major problems. It was also noted that there was good infrastructure and that transportation of the goods was no problem.

Manufacturing

The technical know-how of the workers is very high and adequate to handle their business with high efficiency. As one of the group's objective is to work in harmony with one another the productivity is relatively high among the co-operative enterprises. There is availability of skilled manpower due to adequate technical training facilities. This is also attributed to the fact that Spain is an industrialised country. The machineries and equipments used are of modern type and are readily obtainable within Spain or imported from abroad. Repairs and maintenance facilities are adequately found within the co-operative

organizations. Within each co-operative there is usually a research and quality control unit. Where appropriate the societies undertake to carry out product designs.

Marketing

Production is made for specific orders both locally and from abroad. Currently these orders are affected by the world economic recession and therefore market promotion and advertising have to be undertaken. This normally is carried out through agents, mass media and catalogues. Market research is done in almost every co-operative. The selling of finished products is on short-term credit of between 30 to 90 days and payment is usually through the bank. The co-operative societies undertake an important role in marketing of the societies' finished goods through market research and market promotion.

PART FOUR: OBSERVATIONS FROM THE STUDY TOUR IN ITALY

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4.1 Objective and Methodology

4.1.1 Objective

The objective of this part of the seminar was to study the organization and functioning of industrial co-operatives and their trend of development on micro and macro level in Italy.

4.1.2 Regions and Co-operatives Visited

The study tour took place in the northern part of Italy in the three regions of Emilia-Romagna, Veneto and Lombardia which together have more industrial co-operatives than the remaining 17 regions in Italy together. The visit was confined to one of the three movements in Italy namely the association known as LEGA, which has the most developed form of industrial co-operatives.

Thus the observations made are from the co-operatives of the LEGA association in the three regions previously mentioned and should not be generalized for the situation in Italy as a whole.

4.1.3 Methodology

The study tour in Italy took place from September 13 to September 24, 1982 (for details, see programme in Appendix 1).

After an introduction to the industrial co-operative movements in Italy, the seminar visited two regional associations (for Emilia-Romagna and Lombardia) and nine industrial co-operatives in the three regions. The societies visited represented a variety of the sectors in which the co-operatives operate.

Responsible for the organization of the study tour was Mr. Djonkon N'djonkon of the International Centre for Advanced Technical and Vocational Training in Turin.

The participants made their observations on the topics assigned to the groups according to section 1.9. The observations are presented in the following sections and represent box D in the methodology chart in section 1.10.

The groups also took notes and wrote reports from the visits. These visit reports are reproduced in a separate Annex to the final report.

All figures in USD have been calculated at an exchange rate of ITL (lira) 1.360 for one USD.

4.2 Development and Present Status of the Industrial Co-operatives in Italy

4.2.1 The Concept of Industrial Co-operatives

In Italy, the concept of industrial co-operatives covers both producer and some service co-operatives. They occupy a wide spectrum of activities such as manufacturing, road construction, housebuilding, environmental control, industrial cleaning and consultancy. In Italy, they are known as Production and Worker Co-operatives, stressing the importance of worker ownership and control of

the enterprises as opposed to capitalist ownership.

4.2.2 **Development and Present Status of Industrial Co-operatives in Italy.**

The Italian economy is dominated by capitalist enterprises with big multi-national companies such as Fiat. That is why the position of industrial co-operatives in the economy at a macro-level does not seem prominent. It is, however, important to note that at a micro and sectoral level, industrial co-operatives in Italy have great impacts in as far as job creation and protection, production and capital generation are concerned.

Though co-operatives in Italy started with the agricultural sector as a means of defending the lowest classes, they spread to other sectors including the industrial sector. In industry, the greatest number of industrial co-operatives emerged in the period 1960 - 1970.

At a political level, industrial co-operatives are either associated to the Communist party of Italy working under an association known as LEGA or associated with the Christian Democratic Party forming a confederation. There is also a third category, which is neither associated to the Communist nor to the Christian Democratic Party which form independent associations. The three separate movements have independent membership to the International Co-operative Alliance.

The study tour concentrated on the industrial co-operatives associated with the LEGA which are more developed than the rest.

During the fascist dictatorship, co-operatives in general and industrial co-operatives in particular faced a lot of problems mainly because of their democratic outlook. This made some societies operate under private titles or underground. Economically, the development of industrial co-operatives in Italy has always been affected by economic crises typical to any capitalist economy where periods of economic prosperity are followed by periods of crisis, unemployment, low productivity and low income.

With the problems of economic crisis, industrial co-operatives have managed to survive difficult periods of crises due to the following reasons:

1. Industrial co-operatives have always received great support from the trade union movement. As a result of the solidarity given by trade unions, most members of industrial co-operatives are also members of trade unions. Trade union requirements such as wage standards and working conditions are observed in industrial co-operatives and some industrial co-operative members are representatives to trade union bodies.
2. Industrial co-operatives have survived economic crises because of their determination to protect their own jobs. The main objective of industrial co-operatives is to create and protect employment. This is well manifested in the development of the Italian Industrial co-operative movement. E.g. in 1978, 92 workers of a former privately owned ICEL electric wire manufacturing company took over the factory when it was facing a closure. The workers worked for 5-6 months without wages living on unemployment allowance before the conditions improved and wages could be paid again. In the same year, 750 workers of ZEDAPA, an electronic component ma-

manufacturing firm owned privately were being dismissed as a result of mismanagement and lack of innovation.

This shows that where conditions may dictate the dismissal of workers as a result of economic crisis, industrial co-operatives can be a solution to maintain jobs even if it has to mean sacrifice on the part of the members.

3. Industrial co-operatives have survived economic crises because of product diversification and by adjusting the scale of output to the requirements of a declining market. Through capturing new markets and by keeping a small or medium scale of output, industrial co-operatives have managed to compete under conditions of declining demand.

4. Many industrial co-operatives have shown a great emphasis on the utilization of advanced technology. The use of advanced techniques of production and product specialisation has made industrial co-operatives compete with large firms especially in quality of products. As a result of the use of advanced technology, industrial co-operatives can produce goods of similar quality as those produced by large firms or can perform an activity which is qualitatively similar to the one done by a large firm.

At present, the major activities undertaken by industrial co-operatives are almost similar to those undertaken by private enterprises such as:

- Metal-working and general mechanical engineering
- Building and construction
- Plant construction and general manufacturing
- Chemical and electrical engineering
- Environmental engineering such as processing polluted materials
- Printing and consultancy

As was pointed out earlier, most of the industrial co-operatives are found in the highly industrialised northern part of Italy. The following is the distribution of industrial and service co-operatives in Emilia Romagna, Veneto and Lombardia regions:

REGION	Industrial (producer) co-operatives	Service co-operatives
1. Emilia Romagna	226	249
2. Veneto	101	69
3. Lombardia	85	113
	412	431

Together these three regions have more industrial co-operatives than the rest of the 17 regions of Italy.

The existence of industrial co-operatives in the North has an important bearing on the general industrial development of Italy in the following aspects:

1. *Market of producer goods*

Industrial co-operatives form a very strong domestic market for producer goods industrial sector in Italy. Most industrial co-operatives get their machinery and spare parts mainly from Italy and some from outside the country. In this way they form a very important link for the development of large-scale industry.

2. *First stage processing and rationalisation of material resources*

There are industrial co-operatives which process some raw materials needed by large industry. An example of this is the S. Giusto industrial co-operative in Veneto region, which processes raw materials for large-scale aluminium production. Also the same co-operative processes industrial wastes for further use in industrial production.

In this way, industrial co-operatives play an important role in processing and rationalisation of material resources before they are used by large-scale industry.

Industrial co-operatives also do have an important contribution to employment. The following is the breakdown of employment contribution of some of the industrial co-operatives visited during the study tour:

Industrial Co-operative	Member/Employees
Edilter	2.226
COM	200
Ravennate Costruttori	1.050
ICEL	92
Co-op S. Giusto	160
COPECO	250
C.T.A. Projection	9

The employment figures above may not represent a high degree of job creation compared to large firms but this work-force has an important status in the economy. This is so because they are members and owners of capital which they control and protect. Studies done in Europe have also shown that industrial co-operatives in Italy have employed more people than elsewhere within the European Economic Community.

The performance of industrial co-operatives in Northern Italy also has an important contribution to the development of the commercial sector in general. The industries visited are operating at an average annual turnover of USD 22.8 mill. (ITL 31.1 billion).

Another important feature of industrial co-operatives in Italy is their method of capital accumulation. Most of them reserve 60 - 90% of their surplus for development purposes. This feature has contributed much to the strength of industrial co-operatives in Italy.

In conclusion, industrial co-operatives in Italy have faced difficulties both politically and economically and yet managed to survive. It is important to point out that up till now the political environment has not been favourable. But with increased co-operation among industrial co-operatives and the institutional framework offered by the organizations like the LEGA, a stepping stone to-

wards a better political environment for industrial co-operatives has been provided in the long run.

4.3 Observations

4.3.1 Observations on Legal Arrangements

Currently, Italy does not have a co-operative law. In the constitution, however, there are some articles which make general provisions on co-operatives.

As a result of the general nature of these provisions, co-operative registration in Italy has taken different forms. First there are those co-operatives, registered under particular provisions, which favour co-operative development. These provisions have even made possible the creation of institutions such as the »consorzi« which are important supply and marketing organs for co-operatives. Second are those co-operatives registered under provisions which do not favour co-operative development. These are co-operatives in name and do not operate according to the I.C.A. universal principles of co-operation. They mainly operate on the same lines as private companies.

For those which are properly registered as co-operatives, they are guided by the following provisions stipulated in the law:

1. Membership in a co-operative society should be 9 members or more.
2. Democratic control of the enterprise.
3. Provision to form consorzio. The law stipulates that 5 or more co-operatives can associate themselves to form a consorzio which will provide supply, technical, marketing and promotional services to member co-operatives.
4. Industrial co-operatives are required by law to maintain a ratio of white collar workers at 12% of the total work-force.
5. The age in which one can gain membership of a co-operative society is 18 years. The upper age limit is usually fixed by individual societies according to their by-laws.
6. Co-operatives are required by law to get an external audit of their books of accounts each year.
7. The legal requirement for interest on share capital is 5%.

It is important to note that as far as industrial co-operatives are concerned, there is no provision in the constitution or in the law which regulates the proportion between workers/owners and non-member workers. This is a serious weakness in the law because it may allow a few workers/owners to employ a large number of non-member workers.

The legal provisions outlined above are some examples on the legislation aspects which could be observed during the study tour.

At the moment, registration of industrial co-operative societies is done by the

Ministry of Public Works after an individual society's articles of association have been scrutinized by a Municipal Tribunal.

It was, however, the feeling of the LEGA co-operative movement that the legal difficulty faced by co-operatives is a result of an unfavourable political environment. That is why even the constitutional provisions used for co-operative registration are inadequate. The political machinery being capitalist oriented, would tend to favour the promotion of capitalist enterprises rather than co-operatives especially worker owned industrial co-operatives because the co-operative form of ownership would tend to undermine the foundations of capitalist ownership of the means of production.

4.3.2 Observations on Various Organizational Structures and Statutes

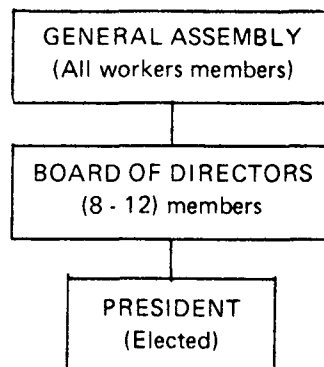
Organizational Structures

The general pattern of organization structure common to co-operative societies can be observed in all industrial co-operative societies in Italy.

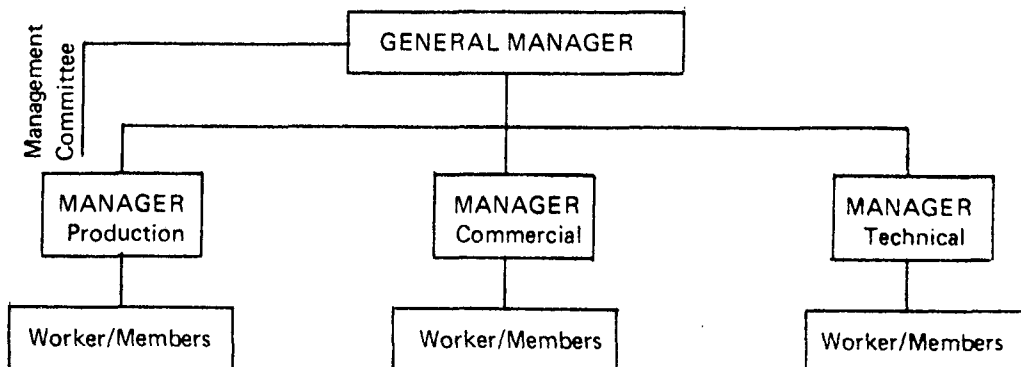
The organization structures show the two basic components, namely the social and the executive organization. Social organization structure is the one designed to ensure democratic control of the co-operative society. The executive structure ensures the day to day running of the business affairs of the society.

The two organization structures could be presented as in the following examples:

Social organization chart



Executive organization chart



The General Assembly is the supreme body which makes major policy decisions and elects the members of the Board of Directors. In the Italian industrial co-operative movement the size of membership of the Board of Directors differs from one society to another depending on the size of the society. In the societies visited the range of board membership was between 8 and 20.

EDILTER Co-operative Society with an annual turnover of USD 88.9 million has a board of 18 and the Co-operative Ravennate Costruttivo with an annual turnover of USD 29.7 million has a board of 13 members.

It was also observed that in some industrial co-operatives the social organization structure does overlap with the executive organization structure in the following combinations:

1. The President of the society is also the General Manager. This was the case in EDILTER Co-operative Society.
2. The President of the society is the General Manager heading an executive management team appointed from outside the society. This was a feature in ICEL Co-operative Society. The reason given for the employment of outside managers was to give the society power to hire and fire freely because the managers were non-members of the society. It also allowed the society to exploit opportunities of qualified management personnel outside the society.
3. The President of the society is the General Manager heading an executive management team elected from the members by the Board of Directors. This was observed at the S. Giusto Rinascita Co-operative Society.
4. The social organization structure headed by the President and the executive organization structure headed by a separate appointed General Manager operate side by side. This was observed at ZETRON Industrial Co-operative Society.

So the management systems of industrial co-operative societies range from full control of the executive structure by the Board of Directors to one which allows power-sharing between the Board of Directors and the non-member professional management.

Special Committees

Different societies have different special committee structures depending on their particular activities. At the same time there are societies which do not have any special committee in their management set-up.

EDILTER Industrial Co-operative Society, for example, had an Audit Committee of 3 people elected by the general assembly every 3 years. The main duty of this committee is to control the use of the society's funds.

S. Giusto Co-operative Society had both a Disputes and an Audit Committee.

Statutory Requirements

1. Membership

The law requires that anybody joining a co-operative society should be 18 years of age. Entry to a co-operative society requires an expected member to purchase society shares which vary in value from society to society depending on their policies on capital accumulation. In the industrial co-operatives visited, no entry fee was indicated as part of entry requirements.

2. Surplus distribution

The law only stipulates the interest on share capital which is 5%.

All other categories on the disposition of surplus are left to the discretion of individual societies. This has allowed societies to be more flexible on the utilization of surplus funds, especially for reinvestment.

The following is the breakdown on surplus utilization by some of the industrial co-operative societies visited:

SOCIETY	Interest % on share capital	Legal % reserves	Extra- ordinary reserves %	Reinvest- ment %	Social activity fund %	Distribu- tion to members %	TOTAL
EDILTER	5	20	30	—	5	45	100
COM	5	7	—	70	7	11	100
C.R.C. (Ra- venate C.)	5	40	—	—	20	35	100
ICEL	5	—	—	95	—	—	100
S. Giusto Rinascita	5	5	—	20	8	62	100
COPECO	5	—	95	—	—	—	100
CORECO C.T.A Pr.	5	—	—	70	—	25	100

It should be observed that on the average 62.3% of the surplus of the above societies exist in the form of legal reserves, extraordinary reserves or reinvestment fund. This indicates a substantial degree of capital formation in industrial co-operatives in Italy. Such capital formation has been made possible with the aim of strengthening industrial co-operatives to protect the jobs of the members and has accounted very much to the success of industrial co-operatives in Italy.

4.3.3 Observations on Institutional Arrangements

The Italian co-operative movement is greatly influenced by the existing main political parties and the movements associated with them, resulting in three apex bodies namely the LEGA, the Confederation and the Association.

In addition to this, there are two other institutions supporting the co-operative movement which are the trade unions and the Italian government.

The Lega

An organization chart of the central body of the LEGA is found on page 48.

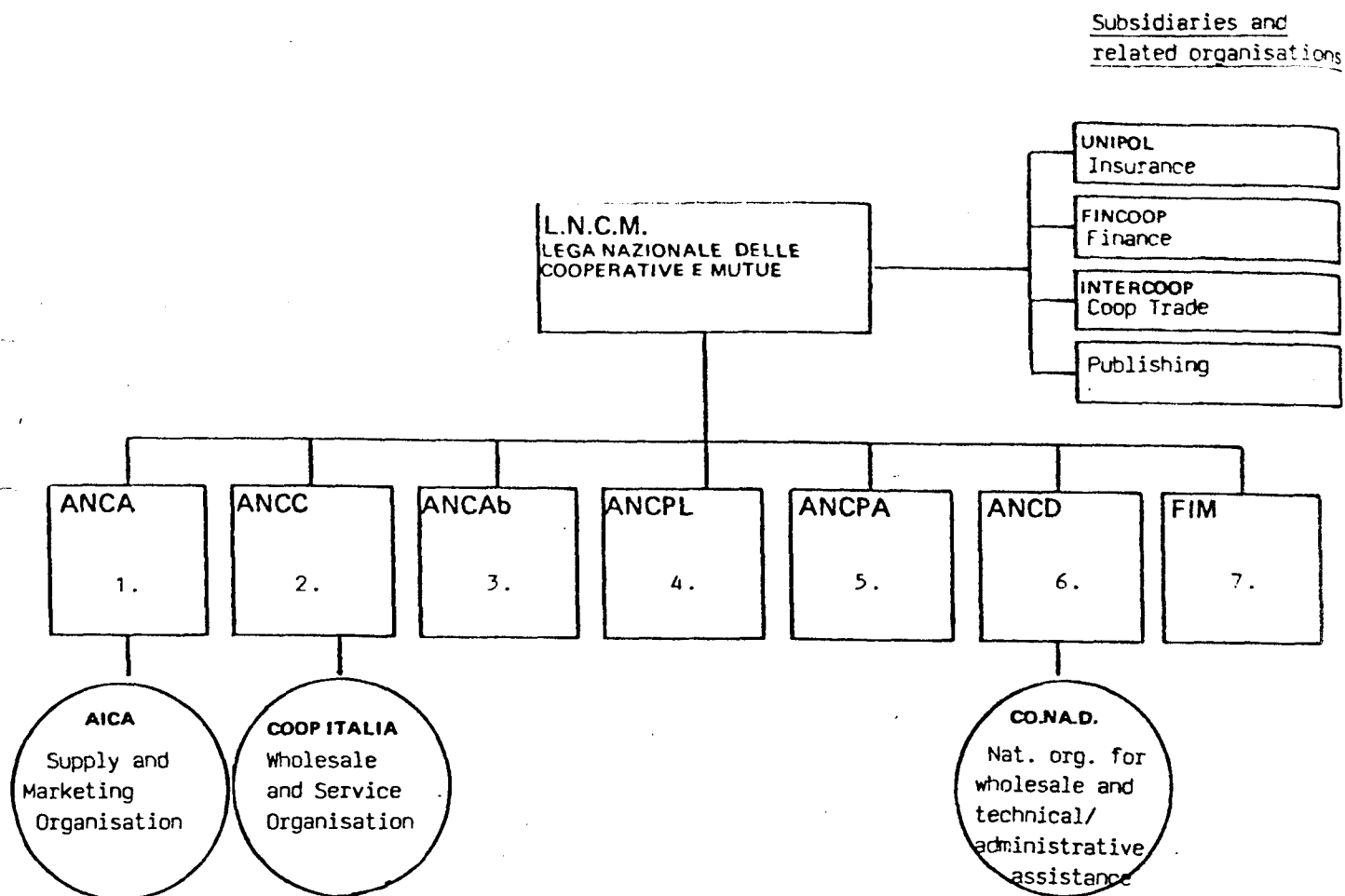
The LEGA is an intersectoral organization with offices at provincial, regional and national level. At each level, the LEGA is horizontally divided into or sectoralised by activities namely production and works (industrial) co-operatives, housing co-operatives, service co-operatives, tourism co-operatives, cultural co-operatives and fishing co-operatives. The LEGA provides the following functions:

1. The LEGA represents, politically, the Italian co-operatives adhering to its general policy. It is thus not a financing body but a policy making body. It bridges her affiliates (The Primary Societies) with the various ministerial offices and through this close liaison formulates the policies e.g. wages and member benefits, surplus distribution. Nevertheless, the LEGA facilitates financial arrangements between the members and the various financial institutions.
2. The LEGA acts as a mediator, in case of clash of principles (interests) among her sectors. For example, LEGA would settle disputes between agricultural co-operatives and a consumer co-operative or industrial co-operative and a service co-operative, etc.
3. The LEGA provides her members with auditing facilities.
4. Within the LEGA, departments generally referred to as the Associations, provides advisory services on such fields as management, marketing, financing, etc.
5. LEGA's responsibility also includes promotion of co-operatives.
6. The LEGA acts as a guarantor to the primary societies in the procurement of loans from the banks.

It is also important to mention here, that through the activities of the LEGA, three types of supporting institutions have been established namely UNIPOL, FINCOOP and Consorzi.

UNIPOL: This is a National Intersectoral Consorzio (see consorzi below). It is an insurance body the establishment of which was engineered by the LEGA. It provides several types of insurance services to the movement in general, industrial co-operatives included. The shares of UNIPOL are owned by the LEGA and the FINCOOP.

ORGANOGRAM OVER LNCM - Central Organisation for Co-operation and Mutual Support



National Organisations Affiliated to LNCM

1. Associazione Nazionale delle Cooperative Agricola
National organisation for agricultural co-operation
2. Ass. Naz. Cooperative di Consumatori
Nat. org. for consumer co-operation
3. Ass. Naz delle Coop di Abitazione
Nat. org. for housing co-operation
4. Ass. Naz. Coop Produzione Lavoro
Nat. org. for production and worker co-operation (industrial)
5. Ass. Naz. Coop della Pesca
Nat. org. for fisheries
6. Ass. Naz. Coop fra Dettaglianti
Nat. org. for co-op retail trade
7. Federazione Italiana Mutue
LEGA central org. for co-op

FINCOOP: The original aim behind the establishment of FINCOOP was to make it a National Co-operative Bank but this idea has not been realised hence FINCOOP operates just as a Savings Bank - accepting deposits from the co-operative movement and providing finances to it during financial crisis. Like UNIPOL, FINCOOP is a brain-child of the LEGA and operates as a national intersectoral consorzio. In addition to the FINCOOP there are small banks that may be regarded as co-operatives at regional levels but their operations are too negligible and has thus little influence in the industrial co-operatives.

Consorzio: Consorzio is a co-operative organization with its membership composed of five or more primary societies in the same sector. Consorzio's major work is to arrange raw materials supply for her members. In industrial co-operatives sector ACAM is a good example of a co-operative of this kind and has 400 members all over Italy (plural-consorzi).

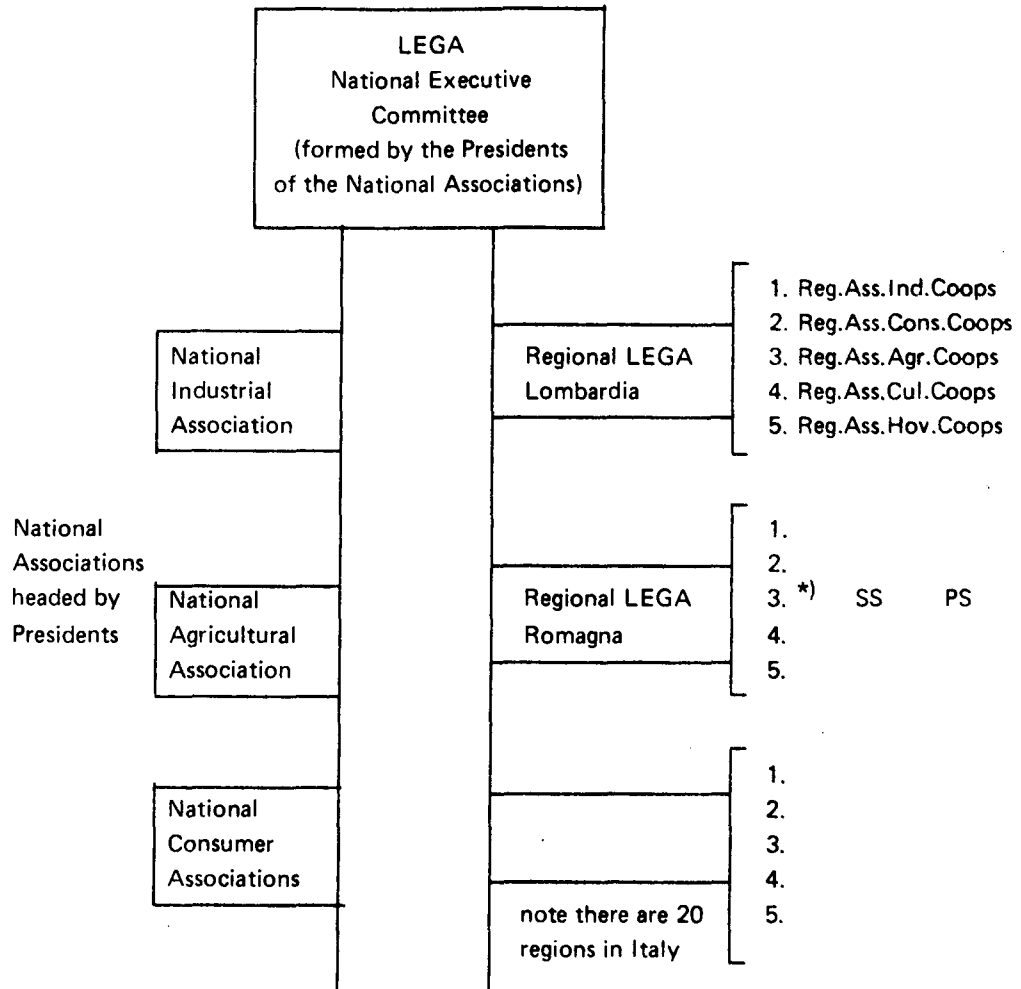
Within LEGA a four tier structure can be identified and these are the primary societies, the consorzi (secondary societies), the regional LEGA and the national LEGA.

The second observation is that at each level there is a sectorial integration. The primary societies elect delegates to the respective regional associations, and the presidents of the associations form the executive committee (board of directors) of the regional LEGA. This complete integration can also be observed at the national level.

Third observation is that there is sectorial specialisation at each LEGA level. The sectors within LEGA level are themselves specialised e.g. industrial, agricultural, consumer, etc. But within every field there are specialised departments dealing with specialised activities e.g. management, marketing, administration, technical and operational activities.

The fourth observation is that in each section there is both horizontal and vertical linkage. In the vertical linkage, the primary societies within a given sector has a link with the regional association of the sector and the national association of the sector. Horizontal linkage is made possible by the fact that the presidents of management committee at the regional level. This has advantage in promoting interco-operative trade and allows for easy solution to co-operative problems.

These observations can be illustrated diagrammatically as below;



Note:

This shows the structure from secondary societies to primary societies (SS and PS respectively).

In two regions, one of them being Emilia-Romagna the structure of the LEGA extends to the provincial level. At this level, where such an extension exists, the same number of associations as at regional level exist as provincial associations.

Trade Unions

The Italian trade union movement has played a vital role towards formation and promotion of production workers co-operatives (industrial co-operatives). This attitude was even more conspicuous during the post second world war reconstruction period when most of the workers in private firms had lost their jobs during the war. And hence in attempt to re-engage them in gainful employment they found worker owned organizations as the best solution. It is through this that most industrial co-operative have evolved.

It was observed that the trade unions are very popular among the production works co-operatives and especially in aspects of wage policy formulation agreements. It should be noted, however, that trade unions have only been active in co-operatives affiliated to the LEGA and not to the other two apexes.

Italian government

The Italian government regards co-operative enterprises just like any private firm. But despite this the Italian government has some policies which tend to provide favourable environment for the co-operative movement in general and industrial co-operatives in particular.

1. Unemployment benefits:
The government pays unemployment benefit to unemployed workers and this has helped some of the industrial co-operatives during their hard time period.
2. Preferential interest rate on loans:
The government requires co-operatives to pay only 20% interest on bank-loans as opposed to the market rate of 25% while meeting the 5% difference from its own ends.

4.3.4 Observations on Financial Arrangements

It was observed that there are three major financial sources for industrial co-operative mainly the share capital, loans and reinvested surplus.

Share capital

The production work co-operatives believe that high financial commitment towards total investment of the enterprise by way of shares from their own source is a very important factor in order to have a sound financial basis before looking for other sources such as loans. The interest paid by the co-operatives as interest on share capital is very low (5%) compared to what the banks would charge if the co-operatives raised the same amount from commercial banks.

Reinvestment of surplus

In most industrial co-operatives emphasis is made on reinvestments of the surplus in the business instead of distribution to members as dividends.

Loans

There does not exist a nationwide co-operative bank and co-operatives seek loans as a last result from commercial banks just as any private enterprise. But as already mentioned the government provides the co-operatives with preferential interest rate on loans.

Member Deposits

The members of co-operatives deposit their savings with the co-operatives and this in case of need can be utilized by the co-operatives.

4.3.5 Observations on Education and Development of Managerial and Technical Skills

The environment in which the industrial co-operatives exist provides fertile ground for the supply of potential manpowers since Italy has a long history of industrialisation. The general level of education among the Italian population is fairly developed as indicated by the various schools and universities which offer specialised training to cater for the needs of the industrial sector among others. With the availability of such training facilities, skilled manpower is easily found in the market.

During the visits it was observed that almost all the workers in the managerial positions had been with the co-operatives for quite a long time, taking co-operative business as a career. These managers had worked through different positions in the enterprises and ultimately gaining managerial experiences through the process of active participation.

It was also observed that managerial skills are gained from being elected members of the Board of Management. Continuous training of managers is also undertaken by the LEGA. In collaboration with universities and other training institutions, the LEGA co-ordinates suitable training programmes for managers at different levels. Admittedly, however, these training arrangements are inadequate to meet the needs of the entire co-operative movement, although Emilia-Romagna has established a training institute for research and development.

Training for technical skills in the co-operatives is mostly carried out by the societies themselves through special training programmes such as apprenticeship and on the job training. Through collective responsibilities and solidarity among members, those with experience and better know-how undertake to teach others. In collaboration with consorzio member co-operatives prepare joint training programmes for the technical workers. In addition, the LEGA offers training opportunities in different technical fields. In some co-operatives with higher technical and specialised needs, funds are normally set aside for specific training and upgrading of its members. As a result of managerial and technical development in societies have been able to attain

higher level of technological advancement desired in relevant productions.

4.3.6 Observations on Matters Concerning Supply, Manufacturing and Marketing

In almost all the societies visited, supply of raw material was adequate. There is no shortage of raw material except that in some cases prices of raw materials were reported high, thus affecting prices of the final product. About 400 societies have joined together to form a consorzio by the name ACAM whose main activities is the buying of raw materials for the societies although some societies still buy direct for themselves because of their speciality and preferences and such societies have purchasing departments which do the buying of the supplies.

Within the consorzio like ACAM, affiliated members run the business in a democratic way regardless of share participation. ACAM buys not only supply inputs for the member societies in bulk, so that it can earn quantity discounts, which are savings to the societies, but also buys different kinds of machinery and equipment for the member co-operatives. ACAM being a technical service organization is in a better position to serve the societies with a cheaper and better service and also saving member societies from incurring extra costs of establishing fully fledged specialised buying units within their organizations.

It was observed that in some cases the output of one society is an input of another society such as in the construction industry which the group observed as a commendable feature. It was also noticed that there were no logistic or transport problems in getting the raw materials to the production plants.

Most manufacturing is capital intensive and the products produced are of high quality and up to the required standard. The manufacturing process deploys the most up to date standard of technology with most of the material, both raw and finished, being handled mechanically.

It was also observed that workers were job conscious at all the time, industrious, technical and displayed high level of efficiency. Quality control was being emphasised in all the societies visited and all the regulations and safety controls to safeguard the workers were being adhered to. The storage facilities were adequate and specially constructed to ease congestion in the factories. Utilities (water and electricity) are readily available and reliably supplied. One of the co-operative societies perform the duties of a consultant in pollution control and is able to render the services to other co-operative societies as well. Most co-operatives produce according to order.

The Co-operatives market their products not only in Italy but also in the rest of Europe, USA, Africa and other countries. This indicates that their products are fairly competitive in the international market. It was explained to the participants that ACAM helps societies in tendering for jobs, mainly for overseas jobs.

The societies also promote their products through advertisements in various media. Presently they are generally affected by the world wide recession although they are optimistic that they intend to diversify their activities in order to get a bigger share in the market.

4.3.7 Observations on Inter Co-operative Trade

It should be axiomatic that one of the important factors contributing to the success of the industrial co-operative sector is co-operation among co-operatives themselves. It was observed that there is a significant business link among the societies visited. This link, however, is not provided by the law but it is on a mutual arrangement, agreed upon by individual co-operative societies in order to promote their business enterprises. In the absence of a clear government legislation and basic legal framework to guide the operation of industrial co-operatives in the country, the LEGA plays an important role in framing and co-ordinating the net work of this sector. Helped by its decentralisation system, it has been possible for it to co-ordinate the activities of the whole co-operative movement by establishing Regional Associations for every type of co-operative societies. The associations main function is to promote business agreement among co-operative societies in their respective sectors.

Most of the societies visited have voluntarily joined together to form consorzia in a given sector. A consorzio in this context means that it is a body that provides special services to member co-operatives such as planning, education, work programmes, etc. Some of the societies obtain their raw material requirements through ACAM. ACAM also purchases equipments and machineries for its member co-operatives.

There are also direct intertrade linkage among the different societies. For example CRC, a construction co-operative society, is jointly undertaking business contract with EDILTER, another construction co-operative which also sells other building materials to other co-operatives. Other examples of industrial co-operative societies producing goods for either inputs or final consumption to other co-operatives are COM which is producing furniture and furnishing for the LEGA. CRC construction co-operative society apart from undertaking contracts jointly with EDILTER, also produces wall apartments for different co-operative societies.

One of the societies visited (CTA) offers special type of services such as scientific researches to other co-operatives.

Another example is Giveto Rinasota co-operative society whose main activities is to give services to industries such as cleaning chimneys, towers, pipes, etc. This society occasionally exchanges sub contracts with another nearby co-operative society.

PART FIVE: CONCLUSIONS AND RECOMMENDATIONS

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5.1 Objective and Methodology

The objective of the concluding part of the seminar was to formulate suitable recommendations and guidelines for the region in order to strengthen and accelerate the development of industrial co-operatives.

The work groups were requested to conclude the relevance of the observations from Spain and Italy to the problems identified during the Regional Seminar as presented in Part Two of this report and to discuss and conclude the adaptability to the conditions in the region. Based upon these conclusions, the recommendations were formulated. The groups dealt with the topics assigned to each group as described in section 1.9.

During this part, a working definition of industrial co-operatives was discussed and adopted as presented in section 5.2. General conclusions were also drawn concerning the need for and potential of industrial co-operatives in the region. A summary of these conclusions is found in section 5.3.

All the group reports were presented and discussed in a plenary and after due consideration unanimously adopted by the seminar as presented in section 5.4 and 5.5.

5.2 Working Definition of Industrial Co-operatives

There is a lack of a commonly accepted international definition of industrial co-operatives. Looking at the various forms of co-operatives, distinction can usually be made between Consumer Co-operatives on one hand and Producer Co-operatives on the other, with Buying and Marketing Co-operatives somewhere in between. Producer Co-operatives usually include agricultural, industrial and service co-operatives.

Several attempts have been made to define industrial co-operatives, for example UNIDO once defined industrial co-operatives as »Any industrial enterprise, great or small which is legally registered as a co-operative or is wholly controlled by an organization so registered».

A close examination of the UNIDO definition especially where it states »... is wholly controlled by an organization so registered.» shows that industrial co-operatives would also include co-operative industries, which in most cases mean industries owned by other co-operatives. In this case, the co-operative owns capital which hires labour just as in any private firm.

In Eastern Europe in general and in Poland in particular, a work co-operative means any co-operative that is not characterized as consumer or agricultural. In this case service co-operatives are included as industrial co-operatives.

In an attempt to come out with a working definition of industrial co-operatives the seminar felt, that four primary variables would have to be considered:

- that it must be a business organization legally registered as a co-operative body
- that the type of production must clearly be defined and should exclude consumer, agriculture and service activities

- that the nature of ownership should be that where labour hires capital and not vice versa
- that there should always exist an element of common capital usage.

On the basis of these four variables, the seminar defined an industrial co-operative as:

- A business organization working in the fields of manufacturing, engineering (including engineering services) and construction, legally registered as a co-operative body, owned and run by the workers themselves according to the co-operative principles.

The various ways in which capital and labour can be brought together as illustrated during the European Study Tour were considered secondary to the four major variables stated above.

In the light of the foregoing argument and definition the seminar excludes the service sector from industrial co-operatives with the exception of pure engineering services.

As for handicraft co-operatives one has to consider their internal organization before excluding or including them as a form of industrial co-operative. The determining variable here is the elements of common ownership and usage of capital. Where members of a handicraft co-operative work at home and only deliver their products to the co-operatives for marketing purposes, such a co-operative is not considered industrial. When members of a handicraft co-operative on the other hand jointly own a building, a workshop or other assets such as tools, simple or sophisticated, and work together in a plant using the assets so owned, such a co-operative is considered industrial.

5.3 The Need for and Potential of Industrial Co-operatives in the Region

5.3.1 Need for Industrial Co-operatives in the Region

The deteriorating social and economic conditions in the less developed nations have grown to an alarming rate. The region south of Sahara is included among these countries. The economic shocks and crises which notably began in the 1970's have had a serious impact on the socio-economic performances of the countries. The countries south of Sahara are typical examples of victims most affected by these economic crises. Some of the most important socio-economic characteristics and problems were outlined in section 2.2 together with a summary of some economic trends for the region. As a consequence, the countries of the region are facing some immediate problems (apart from the long range problems) such as:

1. Unemployment is growing at a higher rate than that of industrialization
2. The countries are increasing their spending on imports of capital and consumer goods, machinery and oil with constant rising prices in the world market. The result being a depletion of the already meagre foreign exchange.
3. Many countries in the region depend almost wholly on foreign aid and loans to finance these imports and compensate for imported inflation

resulting from high priced imports, and subsequent high interest rates that they have to pay on the borrowed capital.

In order to correct the imbalance in the development of the economies, development of the agricultural sector should be matched with a parallel development of the industrial sector, so that the two sectors can complement each other. This means that the agricultural sector should produce inputs to the industrial sector as raw material for manufacturing of consumer goods, e.g. cotton for linen, peanuts for peanut butter, sunflower for sunflower oil, karakul sheep for good quality wool, coffee to be processed to its final stage ready for the consumption market, etc. This also has the advantage that the raw material producing sector can take part in the commodity price determination and influence the fixed prices of these primary commodities which are the lifeblood of the economies. The industrial sector should also manufacture necessary products as producer goods e.g. ploughs and other implements with spare parts, fertilizers, small-stock and livestock feed, pesticides, building materials etc. which can be used by the agricultural sector for the production of food. The industrial sector would not only produce raw material as agricultural inputs but should also endeavour to manufacture goods that can be used as inputs in other industries so that the entire industrialization process can be fully integrated in order to maximise job creation and to generate income for the society. It must also be emphasized that creating more job opportunities has the positive effect of increasing the purchasing power of the communities in their respective countries and consequently of the region. In other words, the process has a snowball effect beneficial to the entire region.

It has been observed that while the developed countries are making efforts to develop and balance the two sectors, most developing countries in the region are lacking this important, inter-sectoral co-ordination. The agricultural sector is favourably developed as against the industrial sector. As a result they have to depend almost entirely on foreign markets for the majority of their vital every day needs. It was noted that co-operatives in Europe in general has a long history, but started on a small scale. Industrial co-operatives in the region can be started by using some of the experiences of Italy and Spain, without copying the set-up, because the socio-economic backgrounds are different. The initiation of industrial co-operatives needs a »big push» through the process of mobilisation of small scale entrepreneurs already in existence into industrial co-operatives to achieve the benefits of intergrated industrialization strategy. Small scale industries which require less capital in combination with the development of appropriate technology should be the starting point.

5.3.2 **Potential of Industrial Co-operatives in the Region**

The East, Central and Southern Africa is a potential region for the establishment of industrial co-operatives. The region is rich of traditional craftsmanship, as can be proved by the presence of many artisans, blacksmiths, ivory carvers, pottery makers, etc. What is lacking is the development and adaption of this skill to an industrial situation, suitable for production of items needed in the everyday lives. Industrial co-operatives have to start by exploring the available resources, not very much for the production of luxury items like some handicraft items, but with basic items used in the day to day lives like household items, equipment used to manufacture other items and basic food items with a view to cater for the local market first, in order for them to be self sufficient and combat the problem of shortage of raw material supplies. It was observed that the industrial co-operatives in Italy and Spain could compete in the market

because, among other things, they chose the most suitable production strategy. The region has abundant labour which can be mobilised and given proper orientation in the form of vocational training to be later on effectively used in industrial co-operatives, which would be labour intensive in their operation so as to avoid high capital costs. This is an important fact that while industrial co-operatives in Spain and Italy are capital intensive and highly automatised in their operations, those in the region should be labour intensive so as to serve the dual purpose of creating jobs as well as coping with the problem of capital requirement. The countries in the region are endowed with enough local raw material as outlined above, what is lacking is proper research and development of how these raw materials can be properly used in the industrialization process of the region. This strengthens the argument for the need to establish research and development institute for the co-operatives, whose main task would be to carry out research concerning the resources available for use within the industries in the region. Research and development seems in this case as a prerequisite for industrialization in the region and even within individual countries.

Although there is still no legal framework and in some cases infrastructure suitable for the development of industrial co-operatives, there are indications that if the co-operators can convince their governments of the advantages of setting-up industrial co-operatives, there would be sincere support for industrial co-operatives by the respective governments. What is lacking is orientation of all the people concerned, and for the governments to formulate suitable policies for the industrial co-operatives in the industrialization process as a means to fight the growing unemployment in the region.

5.4 Conclusions

5.4.1 Government Policies

As pointed out in Part Two of this report, the lack, or unclearness, of government policies, concerning the development of industrial co-operatives has severely retarded the growth and development of this sector. In a region where private initiative for productive investment is low, capital scarce, and unemployment rampant, it is very important that the government institute appropriate policy measures for the development of co-operatives in general and industrial co-operatives in particular.

5.4.2 Legal Framework

Another provisional solution, stated in Part Two is that each country of the region should have a clear definition of industrial co-operatives. This definition should clearly include matters referring to ownership, supporting agencies, rights and obligations of the supporting agencies. One of the major problem identified as hindering the development of industrial co-operatives is the complete absence or inadequacy of a legal framework for the development of such co-operatives. This means that the provisions in the co-operative laws and by-laws do not adequately cater for industrial co-operatives. It is therefore suggested that due to the uniqueness of industrial co-operatives, special reference should be made for them in the national co-operative acts.

The European part of the seminar made it possible to study the legal provisions obtainable in Spain and Italy, and to what extent these laws retarded or acce-

lated the development of industrial co-operatives. The observations on this matter reveal how extremely important it is to have a clear and comprehensive law on co-operatives. The law should not be ambiguous as this can lead to formation of pseudo co-operatives. Lack of clarity in the laws will raise problems in defining what an industrial co-operative is. In Italy for example, lack of clarity on co-operative law has led to problems of definition. This definition problem has been manifested in the formation of two types of co-operatives namely:

- those established in accordance with the international co-operative principles
- those established not in accordance with international co-operative principles but on national and local prerequisites.

This lack of clarity in the law has been identified as a constraint by the Italian co-operative movement and they are thinking of making representations on this matter to the government.

It was observed that the legal provisions for industrial co-operatives in Italy are dispersed in different sections of various laws. Clauses pertaining to the co-operatives are drawn from: the constitution, company law, co-operative by-law, business law.

It might thus be concluded that industrial co-operatives can only flourish once the legal framework has been adequately established.

5.4.3 Statutes and Regulations

Organizational Structure

Both in Spain and Italy, various internal structures of management and organization were found. However, in all cases, the structure was created to ensure a proper balance between the social and the executive structures. To conclude the observations, the following principle structures were identified:

- the social organization structure is superior and works above an executive organization structure which is headed by an appointed General Manager. This structure allows the appointed General Manager to operate independently as an employee of the co-operative though he can become a member. This organization was seen in Mondragon as well as in Italy.
- the President is also the General Manager over the executive structure. In this set-up the General Assembly elects the Board of Directors and the elected President becomes the General Manager over the executive structure.
- the President of the society heads the operational Management Committee which is elected by the Board of Directors from the general membership.

Apart from the above three major systems of industrial co-operatives management structures, both in Mondragon and Italy there were within the individual societies, special committees which were assigned special duties such as the Audit Committee, Social Committee and the Desputes Committee. These committees ensured collective participation in the day to day affairs of the societies by the rest of the members.

Entrance Fees

In Spain, entrance fee was as high as USD 4.500, payable over two years with a minimum initial payment of USD 600. In Italy, however, there was no entrance fee indicated by the societies visited.

Shares

In Spain, members do not buy shares but pay a substantial amount as entrance fees. In Italy, however, members buy shares of the co-operative society, which vary in value from one society to another.

The conclusion of the seminar is that shares should be used to show the commitment to the co-operative society. This is so because they represent the initial investment fund contributed by the members.

Risks

In Spain, when a society faces serious financial difficulties, members may be required

- to reinvest (instead of drawing cash) both the extra month's cash normally paid twice a year and the interest due on their capital accounts
- to write off the members' capital accounts.

The risks exist in two categories: first, risks associated with normal business competition which brings to the society some financial difficulties; second, risks due to abnormal mishappenings to the society or members such as loss of machinery, fire or industrial accidents to the members. Member-workers should be prepared to face both risks.

Surplus Regulations

In the Spanish co-operatives the major categories of surplus distribution are as follows:

- educational and social purposes fund
- reserves which are collectively owned and cannot be removed from the society.
- a greater percentage is in the form of returns to the members, credited to members' accounts within the society and not to be removed until the member leaves the society; this allows the society to accumulate funds to invest for more job creation.
- interest on share capital fixed at 6%.

In the Italian co-operatives, the categories of surplus distribution differ from one society to another.

However, the common categories are as follows:

- interest on share capital fixed at 5%
- reserves
- social activity fund
- reinvestment fund
- some of the surplus distributed to members in cash.

Of all the categories, reinvestment fund takes the largest proportion of the surplus. In some societies reinvestment fund is 95% after providing for 5% interest on share capital. This factor has also contributed to the strength of industrial co-operatives in Italy.

The conclusion drawn, is that the importance of reinvestment in industrial co-operatives should be recognized so that they become financially strong and increase their activity to expand and to create new jobs and increase production of jobs in the economy.

Wage Differentials

In Spain, the differential between the lowest and the highest paid members is 1:3. Under special circumstances managers who will be forced to work for longer hours will get 50% more on their salaries and this may change the ratio to 1:4.5. The wages are fixed by using the average wage of the industry in particular area at a particular time.

In Italy, the wage differential between the highest and lowest paid worker is 1:2.5. The wages are, however, fixed according to the national collective bargaining standards set by the Trade Unions. It was, however, pointed out both in Spain and Italy, that the co-operative members in industrial co-operatives receive relatively higher wages than their counterparts in the capitalist industry.

Interest

As illustrated earlier, interest on share capital in Spain is 6% and in Italy 5%. A greater part of the surplus both in Spain and Italy goes for reinvestment (60%-70%) but the difference is that in Spain it is credited to members accounts, and remains in the society while in Italy it remains as collective reinvestment fund to create more jobs.

Membership

Both in Italy and Spain industrial co-operatives tend to put an upper limit to the number of members/workers. This is inevitable considering the technical conditions and the required level of labour intensity for the society to be able to compete.

The conclusion is that the technical conditions in industrial co-operatives mean that membership cannot be wide open. It has to be limited to the extent where the industrial co-operative will operate efficiently.

Withdrawal

In Spain, members can withdraw cash limited to the level of wages. Any additional income is retained in the business and credited to their personal accounts. In case of a member wanting more cash, he can borrow from a local bank against his credit total. When leaving the society, a member gets his share contribution and accumulated deposits at the rate of inflation existing.

In the Italian co-operatives, a member leaving the society will get his accumulated benefits. Like in the Spanish model, members should not be allowed to withdraw their accumulated deposits from the society. These deposits will act as security whenever they need to borrow money for their own personal use.

5.4.4 Institutional Arrangements and Support

Industrial co-operatives institutional arrangement and the support they have rendered to the industrial co-operative sectors in Italy and Spain, have played a major role in the development and expansion of industrial co-operatives in both countries. Today, Italy and Spain have some of the largest and most successful industrial co-operatives that are capable of competing with the multi-nationals and private firms even in the world market.

In Spain, the major institutions which have played this important role have been:

- the Basque Government
- Caja Labour Popular (the Bank)
- the Polytechnic school (Eskola Politeknikoa)
- the school of management (ETEO) and
- the Research Institutions which are at the Bank and the IKERLAN.

In Italy, the following institutions have played a remarkable role in the development and expansion of industrial co-operatives:

- the three Apex bodies - mainly the LEGA
- the LEGA promoting institutions which are:
 - a) Consorzi
 - b) Associations both regional and national and
 - c) Intersectional associations i.e. UNIPOL and FINCOOP
- the Trade Unions
- the Italian Government.

5.4.5 Financial Arrangements

Inavailability of finance and capital have been identified as major problems of industrial co-operatives sector especially in the developing countries and this has resulted in the present frustrations and failures within this sector. Both in Spain and Italy a strong financial backing and an environment conducive to the development of industrial co-operatives was observed.

Internally, many societies have very strong reinvestment policies. Most of them reinvested 60-90% of their surplus. The objective is to create strong societies to create more jobs. Many industrial co-operatives had internal management structures which provided for the formation of audit committees to look into the day to day financial affairs of the co-operatives.

Externally the environment for the operation was also conducive to industrial co-operative development. In Spain, the co-operative bank Caja Labor Popular owned by the co-operatives offered capital guarantee to them and both in Italy and Spain the law offered the necessary tax holidays for industrial co-

operatives to accumulate the necessary capital in their first years of operation.

These observations have important bearings to the problems concerning finance and support as highlighted in Part Two of this report, where it is concluded that internally, industrial co-operatives are facing problems related to bad financial management, lack of auditing, budgetary control and capital starvation because of lack of proper reinvestment policies as far as surplus is concerned.

Externally the environment is hostile to industrial co-operatives in Africa. There are no financial institutions specifically designed to offer financial support to industrial co-operatives. Ordinary commercial banks are not willing to give loan capital to industrial co-operatives because they could not offer the required collateral security.

5.4.6 **Education and Development of Managerial and Technical Skills**

Inadequate managerial and technical skill in the industrial co-operatives in the region had been clearly identified. There is a lack of technical training facilities, to secure necessary skill for production and for saving in materials and time. The general level of illiteracy of members and a low level of education of those on the management level in particular has been a constraint for participation in the management. Poor performance in the areas of control of cost and quality, in financial management, in marketing strategies and in co-ordination, has resulted in inefficient and inadequate managerial performance in many of the co-operatives.

In contrast, the visits to Spain and Italy have shown that the highly developed industrial condition in those countries has created a situation where these problems are no longer significant. The availability of skilled manpower in the market, the numerous training facilities and the long period of industrial experience have made the industrial co-operatives technologically up-to-date, efficient and competitive in their business.

5.4.7 **Supply, Manufacturing and Marketing**

Supply

In many countries of the region, lack of adequate raw materials is one of the greatest hindrances to the development of industrial co-operatives. This problem is almost becoming classic as it has been existing for a long time now. The observations on the Spanish and Italian industrial co-operatives show that such a problem does not exist because a thorough feasibility study including the availability of raw materials is normally conducted before an industrial co-operative society is established. This prerequisite must be emphasized in establishing industrial co-operative societies in the region.

The problem of lack of foreign currency for purchase of imported raw materials is often referred to as the chief cause for the unavailability of raw materials. However, in many cases, it has been a mistake to import raw materials from abroad while raw materials are abundant locally or in the region.

Cost of production in industrial co-operatives is strongly affected by price hiking of raw materials and high transport costs. This does not only inflate

prices of the finished goods but also results in low turnover. The experience from Italy showed that this problem is contained by the organization of a special co-operative body which purchases raw materials in bulk for almost all the industrial co-operative societies, as such utilizing the advantages of quantity discounts as well as low transport costs. Similar co-operative bodies should be established in our countries for the same purpose.

Most industrial co-operatives in the region are facing the problem of getting spare parts and other equipments. The experiences in Spain and Italy, showed that in almost each industrial co-operative, there has been established a special technical section whose function is to make spare parts for the machinery in the society. This example can be emulated in the industrial co-operatives in the region.

Manufacturing

Inadequate technology, absence of product quality control, insufficient technical and managerial skills are considered the major problems of manufacturing in industrial co-operative societies in the region.

Most industrial co-operatives still work with hand tools. The failure to improve the means of production is one of the causes of product underdevelopment and the societies' stagnation, contrasting with what was observed in Spain and Italy where industrial co-operatives work on so much developed machineries that their products are highly competitive on national and international markets. By contrast, the products from industrial co-operatives in the region are usually of very low quality that do not even manage to get local markets.

Most products produced by industrial co-operative societies in our countries fail to get markets because of their inferior quality. It is a surprising fact that very few societies if any have realized the need of establishing quality control, contrary to what was observed in Spain and Italy where nearly every society has a quality control section within its set-up. In so doing products are standardized and made equal to those sold by other firms.

The co-operatives also fail to get managerial and technical manpower due to the lack of incentives. Indeed this is one of the most important things to consider. It was observed that in Europe, workers in industrial co-operatives are highly motivated by good working conditions. It was noted in other cases that industrial co-operatives offer even better conditions than those offered by private firms, for example in some societies, apart from the provision of school fees for children and sports facilities, workers are occasionally taken to holiday resorts. These provisions attract more workers, and even people with high managerial and technical skills.

Marketing

The most problematic areas of marketing is the lack of proper market research and inefficiency in marketing management. Even when there is a specific supporting institution, very little is done in market research. In Italy, it was observed that some industrial co-operative societies even send their marketing officers abroad to secure new markets, to find the tastes of their customers where they had already established the market, and to enquire about the

standard of goods of their competitors. This is quite essential in order to make effective sales of the goods. The industrial co-operatives in the region are financially unable to make this type of research, but through the body proposed, they can be able to make market research at least within the country.

It was observed during the study tour that marketing of goods involves a heavy commitment in terms of advertisement in producer co-operatives. Industrial co-operatives in Spain and Italy make their advertisements through publications, newspapers, radio, TV. In so doing, their goods become well known throughout the world. Industrial co-operatives in the region should also advertise their products through local media.

5.4.8 Inter Co-operative Trade

One of the most outstanding experiences observed during the visits to co-operatives in Spain and Italy was the way co-operatives conduct trade among themselves. In Italy for example a construction co-operative producing prefabricated components for building sells its products to another co-operative in the same trade. The big consortium, ACAM, produces the necessary supplies for its affiliated 400 member co-operatives. This remarkable achievement should also be emulated by the co-operatives in the region.

In the region, trade between co-operatives is insignificantly small, the production process is very simple and its trade is directly linked to the open market. In comparison with items produced by private enterprises the quality produced by co-operative is inferior and the price of the commodities very high, this has led consumer co-operatives to buy their inputs from the open market rather than from fellow co-operatives. Promotion for sale of products among co-operatives has not developed yet.

If the co-operatives could be able to organize their efforts together and trade among themselves they could become strong and competitive in the market.

5.5 Recommendations

5.5.1 Necessary Government Policies

1. Industrial co-operatives are part of the overall industrial development strategy of a particular country; they cannot operate in a vacuum the specific roles they should play and their share of duty in the overall industrial development strategy should be clearly defined. Therefore, clear and comprehensive policy guidelines on industrial and co-operative development are a prerequisite for the development of industrial co-operatives and must be issued by the governments.
2. Industrial co-operatives can be one of the key instruments to bring about industrial development in the region. However, since the idea of industrial co-operation and the way it is organized and managed is relatively new and unknown, the governments should take it as their cardinal duty to create strong national and regional bodies for the promotion and support of industrial co-operatives. These institutions should involve themselves in both general and specific functions like promotional work, research and development, feasibility studies, management consultancy, technical designs,

training etc. Therefore, a policy guideline on the establishment of these relevant promotional and support institutions is vital for the rapid development of industrial co-operatives.

3. Industrial co-operatives are late-comers in the field of industrial development in the region and as such they should be deliberately encouraged and given comparatively better incentives by governments at least during their initial stages of development. The governments should institute favourable policy measures as regards taxation, credit and finance, supplies and machinery acquisition, etc to enhance the development of industrial co-operatives in their respective countries.
4. Since industrial co-operative development in the region is at its infancy, it should be well preserved from possible doom by well-entrenched private, state, and multi-national competition. At least for the first two to three decades of their initial development, industrial co-operatives should be given a chance not to be unfairly competed with. Therefore, the governments should issue policy guidelines whereby areas could be indicated for the effective operation of industrial co-operatives.

(It might be appropriate to add that the state industries should mainly concern themselves with manufacturing of capital /producer/ goods and basic service industrial production. These in turn will be used by industrial co-operatives in their production activities. This was amply demonstrated in the visits in Spain and Italy, where the development of a wide capital /producer/ goods sector has helped the growth and development of industrial co-operatives by furnishing them with essential input supplies, equipment, machinery and spares, improved technology, skilled manpower, and market outlets.)

5.5.2 Legal Framework

1. Every country in the region should have a clear and comprehensive law on industrial co-operatives. This law should be specific and avoid all sorts of ambiguities.
2. This well defined and comprehensive law should provide guidelines in matters such as:
 - prerequisites for formation and liquidation of co-operatives
 - registration
 - bodies for general supervision and co-ordination
 - supporting agencies and the rights and obligation of such agencies
 - audit requirements
 - minimum membership and value of the shares.
3. Clauses pertaining to co-operatives should not be dispersed in different laws but should all come under one co-operative act to avoid conflicting and contradictory laws.
4. As the majority of the co-operative laws in the region are formulated mostly to cater for marketing co-operatives, these laws should be reviewed so as to incorporate provisions for industrial co-operatives as well.

Statutes and Regulations

1. The organizational structures of the societies should be set up in such a way that the social structure of the co-operative society is superior to the executive structure where the General Manager and departmental managers are appointed. This will allow societies a wider scope of exploiting the existing qualified manpower obtainable in the market. It will also allow the employed manager to operate according to his ability.
2. A special committee structure should be maintained by the societies. Though members of the Board of Directors may assign themselves specific duties in the society, yet different special committees appointed from among the members are useful for collective participation in the affairs of the society.
3. The number of Board members should be determined by the individual society depending on the size and magnitude of the activities of their society.
4. Entrance fees should be taken as a token to cover initial costs of stationery. Since the amount would be small, it cannot be used to show a member's commitment to the co-operative society.
5. The entrance fee, should be paid by any new member and should not be returnable as it does not go for investment and hence does not generate new capital.
6. Share value should not be so small as to make the co-operative incapable of meeting initial investments and not so big as to bar prospective members.
7. The number of share holdings per individual member should be equal.
8. Members may pay the share value when joining the society, but if this is not possible, they should be allowed to pay them as a percentage of their monthly pay until the whole amount of the share is settled on agreed terms to be stipulated by the by-laws of the society.
9. For risks associated with normal business competition, the following steps should be taken:
 - any loss should first be covered by the reserve fund
 - secondly by reinvestment of interest on shares
 - thirdly, part of the shares of the members should be written off to cover the financial loss
 - fourthly, members may be asked to contribute directly to the society.
10. For risks associated with abnormal situations and accidents, the society should have insurance contracts with insurance companies.
11. The importance of reinvestment should be recognized in the industrial co-operatives in order to make them become financially strong and to increase their ability to expand and create more jobs and to increase the production of goods in the economy.
12. During the first years of operation, the distribution of surplus should be as

follows:

- a certain percentage relatively small (e.g. 5%) be interest on share capital
 - a certain percentage be reserved for replacement of machinery and other fixed assets (this could be 20%)
 - a certain percentage be set aside for reserves (this could be 15%)
 - the greatest percentage (e.g. 60%) should be reinvested directly in the society as a collective fund.
13. After the initial period the major part of the surplus (e.g. 60%) should be reinvested by crediting the members personal accounts with the society not to be withdrawn until a member leaves the society.
 14. Wages should be fixed according to the minimum wage given by the government.
The ratio between the lowest and highest paid worker/member should be fixed and stated in the by-laws of the society.
The ratio, however, should be subject to revision when conditions so demand.
 15. Members should be encouraged to accumulate their deposits within their societies. When they need to borrow, these deposits will act as security against personal loans. An interest rate equivalent to the one offered by commercial banks should be paid on these deposits.
 16. A member leaving the society should be paid the original value of the share and any other payments due to him. However, before this is effected, the books of accounts should be audited and the financial position ascertained. The members financial obligations to the society should also be met.
 17. The payment to a member who withdraws may be paid all at once or by installments depending on the by-laws and financial position of the society.
 18. Retiring members should be encouraged to leave their retirement benefits with the society and may get 1% extra, over and above commercial bank interest rate as an incentive.
 19. Interest on share capital should be fixed and determined by law and paid annually.
 20. Interest on members' deposits with the society should receive the equivalence of the going commercial bank rate.
 21. Interest on personal credit accounts with the society when paid, will be fixed by the General Assembly.
 22. The technical conditions in industrial co-operatives mean that membership cannot be fully open. It has to be limited to the extent, where the industrial co-operative will operate efficiently. However, plans should be made to create industrial co-operatives which are oriented towards job creation. These could be industries which stimulate the development of other industries in the area.

23. Probation of workers to become members should be 6 months to 1 year to allow a period of accumulation of funds to pay for their shares and understand the operation of co-operative principles in industry.
24. At any given moment the proportion of non-member workers should not exceed 10% of the total membership.

5.5.4 Institutional Arrangements and Support

1. Industrial co-operatives (where they exist) should be encouraged to form their own Union, affiliated to the national body representing the co-operative movement in that country, both to represent their interests at appropriate levels and to provide such common services and functions to its member societies, which can more economically be provided centrally.
2. As a practical gesture to underline government encouragement and support, national funds should be provided to the proposed Union of Industrial Co-operatives to support its initial operations, possibly on the basis of matching the contributions from its member societies.
3. The proposed Union should organize and control the operation of a rotating Industrial Co-operative Development Fund in collaboration with the appropriate banks to be used for the promotion and development of industrial co-operatives.
4. The government should consider channeling national and international development aid to industrial co-operatives through the proposed Industrial Co-operative Development Fund when it becomes operational.
5. The Union should from time to time be able to advise the government on legal and other matters concerning industrial co-operative development.
6. Industrial co-operatives should be encouraged to establish and own a co-operative bank in order to discharge the above financial duties as well.
7. The polytechnic schools in the region should have their functions geared towards the promotion and development of industrial co-operatives.
8. The region should create research departments in their existing institutions, e.g. in co-operative departments, co-operative schools and colleges, with the sole responsibility of developing new product lines, development of existing products (product development) and quality control and communicate their findings to industrial co-operatives.
9. Where industrial co-operatives already exist, the government should encourage them to join to form such secondary societies, which can provide collective service e.g. marketing, supplies etc.
10. Trade Unions where they exist should encourage the establishment and development of industrial co-operatives.
11. Where co-operative movement apex organizations do not exist, industrial co-operatives should be encouraged to form national bodies like associations, or federations.

12. District and Regional Unions, can be of great help in establishing industrial co-operative activities such as marketing.
13. Where such bodies exist, like SIDO in Tanzania and HASIDA in Ethiopia, they could act as a basis for further establishment and development of industrial co-operatives. A similar structure should apply at all levels in the co-operative movement.
14. In the apex organization structure, industrial co-operatives should be given similar horizontal and vertical structure as well as representation just like the other forms of co-operatives. A similar structure should apply at all levels in the co-operative movement.

5.5.5 Financial Arrangements

1. The governments should draw up clearly defined policies regarding financial assistance to industrial co-operatives, policies which have been found to be lacking. These policies should include matters like consideration of low rate of interest on loans borrowed from financial institutions, tax exemptions for industrial co-operatives, etc for the first five to ten years of inception, and such aspects as unemployment benefits in case of redundancy etc.
2. Arrangements should be made by governments to create the necessary financing arrangements either by establishing a special industrial co-operative bank or using the existing commercial banks but provide special facilities for financing industrial co-operatives. This could be achieved by creating a guarantee fund by the government against which co-operatives could get loans.
3. There should be clear cut policy guidelines showing the extent of financial commitment by the government towards the required capital in the case of a new industrial co-operative or expansion of an old one.
4. More favourable conditions should be extended to this sector e.g. subsidised interest charges such as governments meeting 5% of the normal interest charged by banks against loans to industrial co-operatives.
5. The law should provide the necessary tax holidays to industrial co-operatives so that they have an opportunity to accumulate capital.
6. Societies should not be registered without an economic viability report which shows the expected financial strength especially the members long term financial commitment to the co-operative society.
7. The financing institutions should have a project monitoring machinery to supervise the activities of newly established societies until they operate on a strong financial base.
8. The law should make provision that in the first 10 - 20 years of operation, the largest part of surplus should be reinvested into the business.
9. Each industrial co-operative, should provide in its internal management structure the formation of an Audit Committee which will look into the day to day financial affairs of the society. This audit committee should be elected by the General Assembly.

5.5.6 Education and Development of Managerial and Technical Skills

1. The curriculum of the primary and secondary schools should be reconstructed to include teaching in vocational and technical subjects as well as co-operative ideology. Student participation in the extra-curriculum of co-operative activities should be encouraged. They should be encouraged to form and run student shops co-operatively. They should raise the initial capital in the same way they would in a co-operative business for the working capital of their shops and schools would have to provide places to operate from and any necessary advice. In this way students are exposed to real co-operative business situation of financial control, planning, book-keeping, business management problems etc. Industrial type co-operative should also be encouraged to be established specially at polytechnic schools. Co-operative education should be given more emphasis at secondary level and at polytechnic schools.
2. Special institutions for teaching vocational and technical skills for co-operative members should be established in various parts of the region. They should be formed by the apex organization and/or by government agencies. The institutions should have demonstration centres and mobile training units at different places for practical teaching on new technologies and product developments.
3. Apprenticeship teaching to young workers should be given by experienced members in each co-operatives.
4. On the job training, upgrading and refresher courses in technical and managerial skills programmes have to be organized in and out of the co-operatives. Secondary unions and government agencies should help in establishing such programmes.
5. Co-operative Colleges should be established by each country in the region. The college should teach co-operative ideology, financial management, marketing and other managerial skills to cooperative members and extension workers.
6. The participation of members in the decision making process of the co-operative self-management must be strengthened and encouraged to enable them getting managerial skill from practical experience.
7. Co-operative members must understudy employed managers and technicians to gain the required skill and to replace them in the long-run.
8. Exchange programmes, visits to co-operative institutions and seminars on practical problems on technical and managerial skills have to be organized for members by secondary unions and government agencies.
9. Competent extension workers should be assigned to the co-operatives in the region by secondary unions and/or government agencies to teach members on technical and managerial skills at their work places.
10. Comprehensive and long-term detailed extension programmes should be prepared and organized to guide the extension workers.

11. Continuous research must be carried out by the apex organizations or the government agencies to identify and find solution to the problems in managerial and technical skills.
12. Unreserved assistance should be given by the government, ICA, universities and other institutions to the co-operatives of the region for furthering the development in managerial and technical skills.
13. Co-operatives should be encouraged to reserve funds for education and development of their managerial and technical staffs.

5.5.7 Supply, Manufacturing and Marketing

1. The availability of raw materials should be included in the feasibility study before launching of an industrial co-operative. If possible, the feasibility study should not only determine the availability but also the quantity and quality of raw materials expected from different sources, as well as determining the necessary imports. During the initial stage, the relevant institutions (e.g. the apex organization) for the development of industrial co-operatives should undertake this task on behalf of the government.
2. Instead of importing expensive raw materials from abroad, the governments helped by the institutions relevant for the development of industrial co-operative should see to it that research is conducted to innovate substitute raw material and to use local raw materials in the industrial co-operatives.
3. Institutions relevant for the development of industrial co-operative should ensure that they have trained enough local technical experts who would continuously be innovating substitute raw materials in the country.
4. The governments should give priority to industrial co-operatives as regards the allocation of raw materials.
5. A special co-operative body should be set up for purchase of raw materials, thus taking advantage of quantity discounts and low transport costs. Such an organization need not be formed at national level, a group of industrial co-operative societies in a region can organize this body whose functions should be to locate different sources of raw materials of good quality and low costs, to purchase them and to distribute them to different co-operative societies.
6. Industrial co-operative societies should try as much as possible to develop the system of making spare parts by themselves. Of course there are some types of equipments and spare parts which are difficult to make locally, in this case, the governments should be asked to give special favour of allocating enough foreign currency for their importation.
7. Apex co-operative organizations as well as all those institutions relevant for the development of industrial co-operatives should work out ways whereby these co-operative societies can be able to obtain modern machineries and equipments either through loans or direct acquisition at subsidized prices. These organizations should also see to it that desirable machineries appropriate to the local conditions are acquired.

8. Supplementary to the modern equipments required, adequate technical know-how on their use is needed. Some of the societies are making efforts to acquire modern machineries and equipments, but fail to use them effectively because of lack of technical know-how. Industrial co-operatives should be advised to ensure that modern machineries acquired are supplemented by modern techniques.
9. The co-operative movements should establish training institutions to offer both technical training as well as to teach co-operative ideologies. Mondragon group of co-operatives in Spain has been a good example with its polytechnic college which offers technical skills for prospective workers of the societies.
10. Mobile training units established by the secondary and apex co-operative organizations as well as institutions responsible for the development of industrial co-operatives can further develop the technical and managerial know-how in the societies.
11. It should be a statutory co-operative rule that every industrial co-operative society should establish a quality control section to improve the quality and thus gain confidence in the market.
12. The governments and/or movement supporting institutions should develop managerial and technical skills locally by establishing maintenance and design centres in the respective countries.
13. Attention should be given to various ways of attracting skilled managerial and technical manpower to the industrial co-operatives through different incentives. Such incentives should, however, not be allowed to conflict the motivation of the members.
14. Product development is one of the key objectives in marketing. The societies have to determine the requirements of their customers in terms of taste, sizes, colour, weight and models or design at different specific periods. This process is a continuous one because the requirements of the customers change. The industrial co-operative societies either at national or at regional level should establish bodies which will help in the supply of market materials as well as conducting market research. It is obvious that forming such bodies would take time. During this transitional period, supporting institutions should make marketing research on behalf of the societies.
15. Supporting institutions should see to it that whenever national and international trade fairs are held, sample of products by industrial co-operatives are displayed. If possible the supporting institutions should also see to it that through government initiative, embassies are utilized to publicise whatever products are produced by industrial co-operative societies.
16. The proposed co-operative body for purchase of raw materials and marketing of finished goods would be helpful in establishing marketing agents within the country as well as abroad. In the absence of such a body, the supporting institution should do it on behalf of the co-operative societies. It should do the same on securing skilled designers in order to achieve quality standards. This institution should also arrange for occasional

exchange programmes that will enable the sharing of experience among co-operative members of different societies within the country and abroad.

17. Products produced by industrial co-operatives in the region are usually expensive and of low quality and hence they fail to compete with products produced by other firms in the market. The chief cause for the high cost of production which involves high costs of raw materials, spare parts, equipments and transportation costs. The solution to this problem can be emulated from the Italian experience where one body is formed by the industrial co-operative societies whose function is to secure sources of low cost raw materials, to purchase and transport them in bulk and hence enjoying the advantages of economics of scale. This body can also be helpful for the distribution of finished articles to the consumers and be in a position to find new markets within and outside the country.
18. In order to attract more customers, and whenever societies find that they are financially in a good position especially in working capital, they should be advised to adopt the system of extending short term credits to customers especially as far as terms of payments are concerned. However, it should be stressed that this credit system should be strictly controlled and closely monitored.

5.5.8 **Inter Co-operative Trade**

1. Research should be carried out on trade areas in which co-operatives can develop markets among themselves. Study should be done on ways of purchasing and selling that can be established by co-operatives jointly. Feasibility studies should be carried out by unions or government agencies. Only successful projects should be selected and promoted. The possibility of regional trade among co-operatives should also be studied and supported by ICA, and the governments in the region.
2. With proper studied project at hand co-operatives can raise a common fund and establish purchasing and/or marketing consortium.
3. The input of one co-operative can be purchased from another co-operative and establish interlinkage between them. For example clothes manufactured by weavers societies can be purchased and become input to another tailoring society.
4. To be competitive in the market, co-operatives should try to get tenders or markets jointly to be shared among themselves.

PART SIX: COUNTRYWISE RECOMMENDATIONS

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1. **Name of the Country:** Botswana
2. **Name of the Author:** Mr. Bigboy Bubi

3. **Problem Areas**

Legal Framework and Institutional Support

The existing co-operatives in Botswana, who are mainly consumer, marketing and supply and the Thrift and Loan societies, are governed by »The Co-operative Societies Act» of 1962. The law does not provide for the establishment of industrial co-operatives although at present there is one industrial co-operative in Botswana, which was registered under the existing law.

The Department of Co-operative Development and the apex organization, the Botswana Co-operative Union, are presently pre-occupied by the existing co-operatives and hard pressed manpower wise to effectively initiate formation of more industrial co-operatives. There is, therefore, presently no institution charged specifically with the promotion of industrial co-operatives. However, Botswana's participation in the seminar on industrial co-operatives in Arusha and Europe and also the participation of the Co-operatives Import/Export Trade Conference in Nairobi in June this year are indications of the concrete intentions Botswana has in the promotion of industrial co-operatives in the country.

Education, Training and Development of Managerial and Technical Skills

Due to the absence of operating industrial co-operatives the following problems are easily identified:

1. General lack of understanding about the role of co-operatives let alone industrial co-operatives in the society.
2. Lack of technically and managerially skilled manpower.
3. Lack of awareness of the operations of an industrial co-operative society.
4. Insufficient education and training facilities both at the Department and at the Botswana Co-operative Union, the apex organization.
5. The limited rural industrial and artisanal potential has not been developed.
6. Lack of co-ordination of activities of the industrial nature between the Ministry of Commerce and Industry which is charged with the responsibility of promotion of rural industrial innovations and industrialization in the country in general and the Department of Co-operative Development which promotes and supports co-operatives in the country.

Supply, Manufacturing and Marketing

Due to limited research facilities in the movement, research to establish availability of the raw material locally has not been carried out hence the following problems still exist in the country:

1. Unavailability of raw material within the country - these are obtained from South Africa at high costs.
2. The local market is highly competitive, so that high quality products at low cost would need to be produced to compete in the market. Lack of quality control, research in the product development poses an immediate problem.
3. The disadvantages of economic arrangements with the neighbouring in-

dustrialized economy may render industrial development marketingwise a wishful thinking.

4. Recommendations for an Action Programme

The following recommendations are being proposed to pave the way for creation and promotion of industrial co-operatives in Botswana:

Integrated Approach

There is overdue need for co-ordination of some activities carried out under the Ministry of Commerce and Industry with the Co-operative Department in the Ministry of Agriculture. There are obvious areas where the co-operatives would like to run industrial activities like in the field of production of agricultural implements and since the nature of the activity is industrial, co-operativisation of the activity needs consultation with Ministry of Commerce and Industry. The Botswana Co-operative Union, the Department of Co-operative Development and the Ministry of Commerce and Industry should agree on an »integrated approach» towards the co-operativisation of the small-scale industries in the country, especially those falling under the Rural Industries Innovation Programme. Once the »Integrated Approach Programme» has been agreed upon, it is recommended that the following steps be taken to enhance the Action Programme:

1. Recommendations to review the present Co-operative Law so as to make provision for the existence of industrial co-operatives should be made, i.e. provision of legal framework in general regarding development of industrial co-operatives, e.g. their formation, required minimum number, surplus distribution, management set-up, social security, risks, financial commitment by members, etc.
2. The Department of Co-operative Development should recruit more qualified people and create a section in the department whose main responsibility will be the promotion and development of industrial co-operatives.
3. The Education and Training Section of the Department in collaboration with the Members Education and Publicity Section of the Botswana Co-operative Union should mount an orientation programme for the would-be-members of these industrial co-operative societies. Government should give the campaign deliberate full support of the creation and promotion of industrial co-operatives, especially in the rural areas as a way of creating more job opportunities for the unemployed.
4. The Botswana Co-operative Bank should be asked to secure funds, either through Public Debt Service Funds, Domestic Development Fund, or any form of long-term borrowing for initial financing of these co-operatives. The Loans Section of the Bank should work out the proportion of the initial share capital which the Bank can finance and the policy regarding repayment, and the proportion members of the society will raise;
5. The Botswana Co-operative Union should establish a Research and Development Planning Unit whose function, among others, will be to carry out feasibility study of the new societies; the section will also in the long run carry out market research and product development;
6. Government should be asked in some cases to protect the market for in-

dustrial co-operatives against giant multinational companies by way of imposing import duties on the importation of the products that can adequately and satisfactorily be produced locally as again a deliberate attempt to promote, develop and indigenise industrialization in the country;

7. The BCU should encourage the societies to be competitive by giving them adequate member education through MEP, and also arrange training courses for the workers of the societies in the local technical training institutions as well as training abroad and on the job training or exchange visits in the relevant areas;
8. The industrial co-operatives once formed should be encouraged to form their own apex organization which will be affiliated to the national apex organization, whose main functions would be to provide support services which are necessary in the manufacturing business such as procurement of input supplies and spares, procurement of jobs, etc.

1. **Name of the Country:** Ethiopia
2. **Names of the Authors:** Mr. Birhanu Ejigu
Mr. Girma Hunde

3. **Problem Areas**

The major problem areas that hinder the growth and development of industrial/handicraft co-operatives in Ethiopia were detailed out in the background papers during the course of the two phases of the seminar; the following is the summation of the problem areas that are envisaged to deter the development of industrial co-operatives in the country.

1. Absence of a government policy directive on the promotion of industrial co-operatives.
2. Absence of special government policy directive in relation to taxation and credit facilities for the development of industrial co-operatives.
3. Shortage of investment capital.
4. Scarcity of qualified manpower with the necessary requisite training and background.
5. Scarcity of necessary raw materials and required input supplies for co-operatives.
6. Lack of developed infrastructural facilities conducive to the development of industries.
7. Low level technology and lack of improved machines and equipment.

4. **Recommendations for an Action Programme**

In the light of the experiences gained from the seminar, and on the basis of the objective and subjective conditions prevailing in our country, we recommend that the following points be given proper attention in order to ensure the smooth and quick development of industrial co-operatives in Ethiopia:

1. A clear and comprehensive policy directive on industrial co-operatives should be issued immediately. The directive should include an article mentioning unreserved government support to industrial co-operatives. It is befitting to mention here that the draft directive has already been prepared and submitted to the government for promulgation.
2. A government policy directive on the establishment of a co-operative bank should be issued. Until this bank is established, the existing credit policy should be improved so as to furnish industrial co-operatives with soft loans at relatively lower interest rates and longer repayment periods.
3. The existing taxation policy should be improved so as to hasten the development of co-operatives in general and industrial co-operatives in particular. Industrial co-operatives should be allowed tax exemptions and holidays, lower tax rates, etc., at least in their initial stages of development.

4. A supply and marketing organization, that will cater for the inputs, machinery and marketing needs of industrial co-operatives should be established under the auspices of HASIDA. When the apex and secondary unions are formed, the functions of this organization will be taken over by them.
5. National and regional centres for research, development of appropriate technology, design development, technical training and demonstration, etc., should be established in selected areas of the country so as to give close support to industrial co-operatives.
6. The Handicrafts and Small Scale Industries Development Agency (HASIDA) should be greatly strengthened in the terms of organization, finance and personnel, so as to give better and efficient services to industrial co-operatives.
7. A government policy directive on the establishment and functions of Apex and Secondary Unions should be issued.
8. Industrial estate facilities with the necessary infrastructural arrangements should be initiated in selected areas of the country; these industrial estates will be mainly used to accommodate industrial co-operatives. And for those co-operatives who would like to establish their enterprises elsewhere, the government should allocate adequate plots of land in suitable areas.
9. A strong co-operative training institute with the necessary finance and personnel resources should be established so as to cater for the manpower needs of the co-operative movement in the country.
10. The establishment of model industrial co-operatives in different trades, which was already started by HASIDA, should be continued and expanded.
11. An investment organization whose main duty will be to study projects and implement them, should be established under the auspices of HASIDA. This organization will make study on industrial projects and will either implement the projects directly itself and then pass it to workers as industrial co-operatives or can start the projects with industrial co-operatives jointly and then leave out after the project costs are fully paid by the co-operatives. The organization will use a revolving fund for its operations and its functions will be taken over by the apex union when it will be formed.

1. **Name of the Country:** Kenya
2. **Names of the Authors:** Mr. David Nthuku
Mr. F.O. Okwiri
Mr. Daniel Runya

3. **Problem Areas**

The following are basic problem areas in the country as highlighted in the country paper:

1. **The Co-operative Act and the Rules**
 - comprehension of Act and Rules on the side of members
 - bureaucratic nature of the Co-operative Act and Rules injures business operations at operational level
 - red-tape as regards acquisition of funds (loans) from the co-operative bank/institutions as spelt out by the rules.
2. **Institutional Problems:**
 - lack of co-ordination among the existing institutional bodies
 - lack of co-ordination as regards external assistance to Primary Society
 - no long-term loans for financing industrial co-operatives
 - lack of emphasis on industrial co-operatives in these institutions
3. **Operational Problems:**
 - management
 - financial/capital
 - input supply/machinery
 - marketing

4. **Recommendations for an Action Programme**

In Kenya's National Laws Co-operatives has a specific law (cap. 490) which regulates and governs the co-operative movement. However, there are certain problems as identified in item three above and the following are our recommendations:

1. Given that the rules and regulations are written in English, for ease of consumption by the target groups (members of societies), we recommend that the rules be written in all vernaculars (in Kenya).
2. Co-operatives are business organization hence prompt decision making is essential. For example, the countersigning of cheques and orders by co-operative government officers before an order is fulfilled causes unnecessary delays in the transaction at society level. We hence recommend, that the rules be amended on such sections to give the co-operative societies the mandate to transact their own business.
3. Red-tape procedures on administrative matters make the co-operatives less competitive in the market compared to the private sector. We recommend that this red-tape should be minimised and that the government co-opera-

tive officer at district level be empowered to deal with some of the procedural matters instantly rather than transferring them to the provincial headquarters and the latter to the head office which often takes months.

4. The existing institutions, namely Kenya National Federation of Co-operatives, Co-operative Bank, Research and Evaluation Unit Research and Invention, Handicraft and Small Scale Industrial Unit of the Ministry of Co-operatives are capable of providing adequate and efficient services to industrial co-operatives only if there is proper co-ordination amongst them.

We, therefore, recommend that the Handicraft and Small Scale Industrial Unit be given the responsibility of identifying potentials. The identified projects should then be passed to Research and Evaluation Unit for scrutiny. The latter should then submit the findings to projects and Investments Unit to perform economic appraisal. From this level (mainly ministerial) the findings should be released to Co-operative Bank and KNFC. Regular meetings of the said institutions should then be held for final decisions on the projects and for discussing the progress of already launched projects.

5. Where external aid is involved, we recommend that a common fund be established. And essentially this be controlled by the Handicraft and Small Scale Industrial Unit for onlending to the industrial societies.
6. In the absence of long term financing loans from the co-operative bank development of industrial/handicraft co-operatives cannot be an easy task. We, therefore, recommend that provisions for long term financing in the co-operative bank be made available.
7. For quite some time emphasis has been on agrobased co-operatives in the country. We recommend that adequate emphasis should be given to the promotion and development of industrial co-operatives by the apex organizations.
8. The present by-laws on industrial co-operatives have been produced from the agrobased co-operatives and do not, therefore, spell out distinct operations of industrial co-operatives. We recommend that the Ministry for Co-operative Development amend the present by-laws especially on entrance fee, share capital, distribution of surplus, etc.
9. The lack of skilled managers has been identified as a major problem area. We recommend that an attractive wage structure should be devised and adopted by the industrial coops to attract skilled managers. Secondly, all recruited managers be obliged to take managerial courses presently offered by Co-operative College. Emphasis on this be made on correspondence managerial course which presently is voluntarily taken.
10. The present financial arrangements as regards industrial co-operatives do not avail adequate funds for industrial ventures which normally require large capital outlay. We recommend the following:

Shares and entrance fee:

Each share be USD 100 and entrance fee USD 2 - and this should be adequate for a member to be recruited. The share can be met either in cash or

by deposit of machinery or tools to the co-operative, e.g. sewing machine (which should be valued) in case of dress making coop.

Each member must have 10 shares which is payable within 3 years, failure of which within the said period the difference should be recovered from the members monthly wages within 2 years.

Surplus:

According to the present co-operative law 25% of the surplus is reserve fund and the rest is distributed to members in form of bonus and dividend. We recommend that this 75% be distributed as follows: 20% be left aside for solid activities and offsetting other obligations, 55% credited to members personal credit accounts which society should be allowed to borrow in case of need.

Loans:

The Co-operative Bank should consider giving long term loans at preferential rate of interest and at a reasonable period of grace.

Input Supply and Marketing:

Co-operative Unions are presently handling marketing and input supply for agrobased co-operatives. We recommend that these Union diversify their operations to include the marketing and supply for the industrial co-operatives.

1. **Name of the Country:** Lesotho
2. **Name of the Author:** Mr. K. Matla

3. **Problem Areas**

The history of co-operative movement in Lesotho, particularly in the development of industrial co-operatives, reflects the problems that hindered the progress as follows:

1. At one point in time there existed 4 industrial co-operatives engaged in activities such as furniture manufacturing, leather industries (shoe repairing) and building constructions and of the four co-operatives mentioned above there is only one active;
2. The history further shows that the reasons behind the downfall of these three co-operatives were as follows:
 - the concept of industrial co-operatives was unknown and no special attention was made to these co-operatives and finally they were bound to close down.
 - lack of capital in the form of machinery and equipment, buildings and the necessary funds.
 - lack of a support organization manned with appropriately qualified personnel.
 - lack of Government financial support.
 - lack of a clearly defined Government policy regarding promotion of industrial co-operatives.
 - lack of suitable legal framework clearly providing definition of industrial co-operatives and rules and regulations (guidelines) on which the model by-laws could be based.
 - lack of co-ordination between institutions that promote Handicrafts and Small Scale industries and this is clearly exemplified by having L.N.D.C and BEDCO promoting private entrepreneurs and private companies on one hand and Ministry of Co-operatives and Rural Development through Lesotho Co-operative Handicrafts, on the other hand promoting Handicrafts and Small Scale industries. This is an unfavourable situation which puts Lesotho co-operative Handicrafts with no Government financial support at an embarrassing position specially on the marketing and financial position.
 - shortage of raw material supply.

4. **The Need for Promotion of Industrial Co-operatives**

Lesotho needs promotion of industrial co-operatives more than any other country in Africa because of its unique geographical position. There is also a need for promotion of this sector of economy because it is a proper and only effective tool with which job opportunities could be created in the rural areas of the country, where unemployment problem is most serious. Above all there is a serious need for industrial co-operatives because of the abundant resources in the form of raw materials which are not yet fully harnessed together and processed into consumable goods. There is mohair, wool and hides and skins. There is also a manpower with professional skills roaming in the streets without jobs.

5. Recommendations for an Action Programme

Based on the problems mentioned above, and the experiences derived from the Regional Seminar and from the study visits in Spain and Italy, the following recommendations for consideration and implementation are submitted:

1. That as a point of departure, Lesotho Government should seriously consider the engagement of an expert to conduct feasibility studies on the possibilities of promoting industrial worker co-operatives in Lesotho;
2. That the Government should also consider transformation of Lesotho Agricultural Bank into a Co-operative Bank in order to expand its services to include handicrafts and industrial co-operatives. This is a very serious step which provides the second point of departure.
3. The newly established Federation for co-operatives should seriously consider promotion of industrial co-operatives as one of the top priorities in its Development Programmes. To achieve this objective there should be a department within the organizational structure, specifically charged with the duty of promotion of industrial co-operatives and to this effect government should annually provide funds and channel them to the apex body in order to facilitate the effectiveness of this section. Again in order to ensure a sound foundation for successful industrial co-operatives, this section should be manned with staff sufficiently qualified and capable to handle such complicated matters as conducting of feasibility studies, research and product developments, training of technicians, managers and marketing personnel.
4. That the present co-operative law be amended in order to provide a legal framework on which to base the model by-laws suitable to industrial co-operatives and also to provide guidelines clearly marking the clear cuts, e.g. showing which institution has to promote industrial co-operatives and who should not. If there is a clear legal procedure assigning specific duties of institutions promoting industrial co-operatives there will be no duplication of the efforts that are existing in Lesotho.
5. That Ministry of Education, Principals of the three technical schools in the country together with Ministry of Co-operatives should consider incorporation of Principles of Co-operation in the syllabus of technical schools and emphasis should be on industrial co-operatives.
6. That Lesotho National Development Corporation L.N.D.C. and BEDCO should consider transforming the private industrial companies and private entrepreneurs that they have promoted into industrial co-operatives with the workers becoming members of these co-operatives.

1. **Name of the Country:** Mauritius
2. **Name of the Author:** Mr. N.P. Fulena

3. **Problem Areas**

The following are considered as the basic problems hampering the development of Industrial Co-operatives in the country:

1. There is no special law on Industrial Co-operatives
2. There is no clear definition of »Industrial Co-operatives«
3. Lack of Long Term Capital for Industrial Co-operatives
4. Lack of advisory services - regarding development of machinery and equipment, production processes, sources of inputs supply and technology, etc.
5. Lack of training facilities
6. Lack of secured markets
7. Lack of quality control, presentation and packaging skills
8. Competition from large industries
9. Lack of managerial skills
10. Lack of research and product development.

These problems are required to be tackled in an effective and comprehensive manner at all levels to help this sector to stand on its own and promote its development.

4. **Recommendations for an Action Programme**

A series of measures need to be taken by the three main parties concerned

1. The Government
2. The Co-operative Movement (The Apex organization and the Mauritius Co-operative Central Bank).
3. The Financial Institutions

The Government

1. There is a need for a clearly defined policy statement on the important role the Industrial Co-operative sector can play in the National Development, to be issued by the Government thereby committing itself to the effective promotion of this sector.
2. The Government should offer a package of incentives such as tax exemptions, import duty concessions on machinery and raw materials Government contracts, import restrictions.
3. The Government should also provide infrastructural facilities in the form of common facility workshops, industrial estates, training facilities at the technical schools, etc.

The Co-operative Movement

The Mauritius Co-operative Union (M.C.U.) and the Mauritius Co-operative Central Bank (M.C.C.B) will collaborate closely to achieve the following:

1. To establish a committee composed of the M.C.U., the M.C.C.B and Government representatives for the promotion and financing of Industrial Co-operatives.
2. To conduct an in-depth study of the problems and prospect of Industrial Co-operatives in the country.
3. To organize fairs and exhibitions to popularise the products made by the Industrial Co-operatives.
4. Marketing arrangements to be made between the Industrial Co-operatives and the co-operative consumer stores to ensure a wider distribution and display of the Industrial Co-operative products.
5. The M.C.U. to launch motivation campaigns to group rural youth and women into handicraft co-operatives and to organize member education programmes at the M.C.U.
6. To look for external assistance from international co-operative organizations and other institutions in order to provide technical training, market opportunities.

The Financial Institutions

1. Lending to Industrial Co-operatives should be given an important share in Commercial Banks financing programmes. The Central Bank should see that the Industrial Co-operative sector obtain an adequate share of credit.
2. The Central Bank should provide the lines of Credit to Commercial Banks which finance the necessary small scale enterprises with long term credit.
3. The Mauritius Co-operative Central Bank should provide a package credit scheme to Industrial Co-operatives by integrating soft long term loans with adequate working capital loans on the basis of economic viability rather than land and assets ownership.

1. **Name of the Country:** Sudan
2. **Name of the Authors:** Mr. Ibrahim Abbas Mohamed Kheir

3. **Problem Areas**

The Co-operative Societies Ordinance, No 29 of 1948 was the turning point in history of coops in the Sudan where Coop Department was created and a registrar appointed with full powers to register and organize all coops in the country which fulfill the conditions laid down in the ordinance. Following the appointment of the registrar was the appointment of experienced employees to bring the advantages of the coops to both rural and urban areas in the Sudan.

In response to this promotion made by these officials many types of coops were established among which some were industrial coops e.g. fishing, bakeries, house building and grain cleanseing. The industrial coops suffered from several set-backs mainly due to a lack of trained and experienced marketing personnel and competition from private firms. The fish marketing coops which made a very good start in 1956-57 could not keep up with its export of dried fish due to a decline in the export trade. Alternative sources of marketing such as internal consumption were not properly investigated and encouraged. Ultimately the fish marketing coops failed. The same thing happened to the bakeries, and grain cleaning coops, which incurred losses and failed. The Central region was the first to establish Gezira Building Coops which later extended to other areas as well. The initial stages were marked with considerable success in coops membership although the number of those members later diminished due to the following reasons:

1. Loans to members granted were given according to the member's income although the loans were reasonable. The members were financially unable to repay borrowed money.
2. Coops already exhausted their budget funds and neither the banks nor the Dept of coops were able to give further loans, then the societies failed. The failure of all these industrial coops was caused by :
 - bad management which was the result of unexperienced and untrained personnel in supply marketing and market research
 - lack of governmental financial support
 - constant competition by large private enterprises.

After the revolution in 1969, the coops were considered by the government as a way of socialist development, hence given some urgent attention.

The first five year plan, 1970/71 - 1974/75 included a programme to revive coops and other ministries were directed to give both financial and moral encouragement to the coops within the framework of the development plan.

The Co-operative Ordinance no 29 was replaced by the Co-operative Act 1973. In this act the coops were given the following exemptions and privileges:

Exemptions:

- taxes imposed on commercial and industrial profits
- rates and fees imposed by the people's local councils
- customs and other duties imposed on the goods and equipments necessary for a society's operation and imported under its name

Privileges:

- a discount of not less than 10% of the freight charges of railways and other state transport corporation for their tractors, agricultural and other equipment and materials used by the coop society to promote its productivity. The minister of communication and transport may increase this percentage
- a discount of not less than 5% on seeds, fertilizers, chemicals, pesticides and equipments manufactured by state or public corporations.
- coops will have priority over private or other business organizations not belonging to the state in their transactions with the government or state corporations or their subsidiaries in obtaining the necessary land and building for their work in order to achieve their objectives.

Following these major reform steps the following supporting co-operative institutes were established:

The Co-operative Training and Development Centre

which was established in 1972 for training of management personnel for the primary and secondary coops as well as the staff of the Ministry of co-operatives. The functions of this centre are to train the co-operative managers, the marketing managers, the secretaries and the clerks to perform their functions in a businesslike manner.

A Central Co-operative Bank which was set up in July 1977 with a capital of USD 3 million. A regional bank was also set up in Juba with a working capital of USD 1.5 million. The functions of these two coop banks are to provide financial help to coops and remove most of the financial problems which hinder progress of the coops. Due to these steps taken by the government some industrial coops e.g. motor transport and multi-purpose co-operatives were established and are working successfully, but it is high time to have more genuine small scale industrial coops established. These small scale industrial coops will secure employment of the big numbers of young engineers of the Sudan universities and technical institutes and also those who finished their studies abroad. These societies should aim at employing young engineers for the manufacture of electrical and mechanical equipment. The manufacturing of electric switches, meters, transformers etc can be taken up by some coops and the manufacturing of irrigation pumps, hand tools, water pipes, taps and other small items of daily use can be taken up by other engineering coops. These coops will not provide only the share capital but also the needed technical knowledge. Government participation in capital and management will help the young people to establish new industries on a sound footing. These societies will help to solve the problem of unemployment among young engineers and their knowledge and skill can be utilized for the industrial and economical development of the country.

It is true that the role played by the government towards support of the coop societies has solved most of the basic problems and led to an intensive growth of the co-operative societies in the sectors of agricultural and consumer coops. In order to encourage the establishment of industrial coops, solutions to some specific problems should be reached first.

4. **Recommendations for an Action Programme**

The following recommendations are made:

1. Creation of a national fund so that the government can provide these small coops by not less than 10% of the necessary capital, either in the form of subsidies or as long term loans.
2. Article 17 (1) of the coop act of 7/1973 to be amended in order to allow industrial coop with a minimum of 10 members to be organized.
3. The members of the industrial coop should pay a nominal entrance fee and raise equal shares amounting to 10 to 15% of the total capital required, the remaining balance to be obtained from the co-operative bank either as short term or long term loans.
4. Fixed rate of interest on shares not exceeding 6% to be paid and reinvested in the business.
5. The percentage of non-member workers should not be allowed to exceed 10% of the total number of members.
6. Allocations to the General Reserve Fund during the first 10 or 15 years should not be less than 60% of the surplus in order to strengthen the financial position and enable the society to expand its activities and to repay the loans.
7. 20% of the surplus should be divided to the members as a dividend or a bonus but to be reinvested in the business.
8. The remaining balance should be used either for social services or according to decision by the annual General Assembly.
9. Suitable model by-laws for industrial coops should be designed.
10. The industrial coops should be given priority to import raw material, machinery, spare parts or any goods required to achieve their objectives.

1. **Name of the Country:** Tanzania
2. **Names of the Authors:** Mr. S.A. Chamo
Mr. R.S. Kuringe
Mr. S.H. Masoli

3. **Background**

Definition of Industrial Co-operatives

The Tanzanian delegation accepts the fact that the definition of industrial co-operatives is not clear in Tanzania as it is taken to have so many varied definitions. The delegation therefore resolved to adopt the definition designed during the seminar which spells out the basic activities, legal conditions and ownership conditions of the enterprise. The definition is found in section 5.2 of this report.

Background to the Need and Potential for Industrial Co-operatives in Tanzania

Before going into the problem areas it is logical to map out the need and potential for industrial co-operatives in Tanzania.

In Tanzania today, there is more need for industrial co-operatives maybe more than any other time because of the following reasons:

- Tanzania like any other developing country is facing foreign exchange starvation because of low productivity in agriculture and slow industrial development. Industrial Co-operatives are needed to supplement the export capacity of the economy to bring in foreign exchange and produce mass consumption goods needed by the domestic market.
- Industrial Co-operatives will establish economic and organic linkages between the large industrial sector and the agricultural sector by establishing them on agro-oriented lines of production, especially in the programme for rural industrialization.
- Industrial Co-operatives could be established in the intermediate sectors to produce things like spare parts in order to revitalise the weak industrial sector oriented to import substitution. One of the problems of import substitution industrialization is lack of spare parts and imported raw materials which could be produced by industrial co-operatives.
- The aim of the political system in Tanzania is to socialize the means of production and mobilize the masses for common ownership of these means of production. As far as small industry is concerned, the best institutions to achieve this form of ownership is co-operative industrialization.
- Industrial co-operatives are needed to create employment for post primary and post secondary leavers.

The most important aspect of industrial co-operative development is that there is a great potential in terms of resources, skills, market and institutional structure both in urban and rural areas.

4. **Problem Areas**

Government Policy

1. Up to the moment, the basic industrialization strategy spelt out in the third

Five Year Plan has not yet taken off. This strategy will provide industrial co-operatives with basic inputs.

2. Until recently, the government has not been able to come up with a definite policy to promote industrial co-operatives. Most guidelines are being worked out and expected to come out in the near future.

Legal Framework

1. The government has not been able to come out with a clear legislation for industrial co-operatives. That is why there happens to be some conflicting ideas as to which law industrial co-operatives should be registered. Whether they should be registered by the Co-operative Department or the Registrar of Companies in the Ministry of Commerce or by the Ministry of Industry is still a subject of debate to date.
2. Lack of standard model by-laws for all industrial co-operatives has brought problems to societies. Without model guidelines on surplus distribution, shares and withdrawals, industrial co-operatives have misused their surplus which could be used for reinvestment.

Institutional and Financial Arrangements

Institutionally, Tanzania can be said to have all the necessary institutions financially and promotional for the development of industrial co-operatives. Such institutions include SIDO, the Apex organization, National Bank of Commerce and the Department of Co-operative Development.

The problems of these institutions are qualitative in nature that:

1. There is no proper co-ordination of activities of the promotional bodies
2. Unclear legal framework has made these institutions to serve industrialization through speculations rather than on the basis of a properly defined legal framework.

Education and Development of Managerial and Technical Skills

The development of basic education and technical and managerial skills in Tanzania is affected by the following problems:

- lack of adequate training facilities for technical subjects
- inadequate professional staff in technical and managerial skills
- lack of proper and intensive tailormade short courses for technical and managerial cadre.

Supply, Manufacturing and Marketing

1. The lack of raw materials in Tanzania would appear to be an apparent one rather than absolute. There exist a lot of resources which are untapped to date.

2. Due to lack of the necessary technology to exploit them and lack of the required foreign exchange to import technology, supply of raw materials to industrial co-operatives and to industry in general has been a big problem.
3. Due to lack of foreign exchange, there is also lack of spare parts to maintain the available machinery to continue producing.
4. The manufacturing process also faces a lot of problems due to lack of the needed tools and the failure to develop alternative tools.
5. As a result of inflexibility in technology to switch to different lines of production when market so dictates, industrial co-operatives have failed to diversify their markets even to plants where simple modifications could be done.
6. Lack of proper machine maintenance and repair facilities has meant that when plants break down it takes time for its rehabilitation and this causes delays in production and loss of revenue to industrial co-operatives.
7. There is no market research and quality control of industrial co-operative products. Due to this, industrial co-operative products are easily competed off as they find it difficult to penetrate a competitive market.
8. Distribution problems are usually associated with high transport costs increasing production costs resulting in high selling prices for industrial co-operative products.

5. Recommendations for an Action Programme

Government Policy

The importance of industrial co-operatives in Tanzania can not be overemphasized at the moment. SIDO as promotional body has tried to do its best in the promotion of small industries including industrial co-operatives.

It is, however, felt that the following should be fulfilled:

1. The government should collaborate with SIDO to form a fully-fledged department within SIDO to deal with the promotion of industrial co-operatives specifically.
2. The long-term basic industrialization strategy should be implemented so that industrial co-operatives get the necessary backing.

Legal Framework

There is a need for the government to formulate legislation concerning the development of industrial co-operatives in the country. But when this is out it should also spell out the standard model by-laws so that there is no confusion when new societies are being registered as regards to their own by-laws, registration, surplus distribution etc.

The ministry responsible for co-operatives should consider this issue.

Institutional and Financial Arrangements

Due to lack of co-ordination of promotional oriented institutions, who are given the duty to promote co-operatives, up to now, these different institutions can not co-ordinate their efforts. They also do not know how much potential the other institutions have for the promotion of industrial co-operatives. It is therefore recommended that a co-ordination committee on the promotion of Industrial Co-operatives be formed from the following promotional oriented institutions:

- The Prime Minister's Office - Department of Co-operative Development
- Ministry of Industries
- Union of Co-operative Societies (UCS)
- Co-operative College Moshi
- Small Industries Development Organization (SIDO)

On top of this frequent collaboration should be made with the ICA Regional Office for the necessary technical and material backing.

As far as financial arrangements are concerned, the role of the National Bank of Commerce to industrial co-operatives should be clearly specified. Also, the financing conditions of the bank to industrial co-operatives should be known to the promoting bodies.

It is therefore recommended that SIDO in collaboration with the relevant institutions work out implementation procedures for the formation of the co-ordinating committee including all matters concerning the financing conditions of the National Bank of Commerce.

Education, Managerial and Technical Skills Development

In this area, the problems are twofold:

- Inadequate facilities and professional staff for technical and managerial disciplines, including research and consultancy.
- Unco-ordinated and unintegrated curriculum development between technical training and co-operative management and accountancy training.

Due to these problems the following recommendations are given:

1. That the training, research and consultancy facilities available for technical and managerial training should be known to all promotional bodies.
2. As far as research is concerned, it is recommended that each promotional organization mentioned above should set up a research and documentation unit. ICA Regional Office is requested to offer financial support on matters concerning research in the field of industrial co-operatives. For follow-up SIDO should co-ordinate the different research units developed in other promotional bodies.
3. As far as technical curriculum co-ordination is concerned, SIDO should collaborate with the relevant ministries dealing with technical education such as the Ministry of National Education, Ministry of Industries, Ministry of Social Welfare etc. to work out a proper vocational/technical curriculum.

4. For Co-operative managerial and accountancy training for industrial co-operatives, the Co-operative College in Moshi should collaborate with SIDO and the relevant ministries and institutions which offer technical/vocational training and work out an integrated curriculum to impart co-operative education skills to these institutions. This could be worked out as tailor-made short courses or long courses after the concerned students already have gained their technical skills.

Supply, Manufacturing and Marketing

With the problems of raw material and spare part supply and marketing the following recommendations are made:

1. For the supply of spares and raw materials to industrial co-operatives the Regional Co-operative Unions should act as the supplying agents. U.C.S. is requested to see to the workability of this proposal.
2. For marketing, there is also need to have a central body to deal with the marketing of industrial co-operative products. We recommend that the Handicraft Marketing Corporation, diversify its marketing activities to include the goods produced by industrial co-operatives. In the regions where Handicraft Marketing Corporation does not operate SIDO regional office should aid in the marketing of goods from industrial co-operatives. SIDO should be in a better position to co-ordinate marketing because the Handicraft Marketing Corporation is a subsidiary of SIDO.

It should, however, be pointed out that the supply and marketing functions for industrial co-operatives will be undertaken by these different bodies until the industrial co-operatives have developed their own secondary organization.

3. There is a need for the Ministry of Industries to work out a long term technology and design policy and demonstration centres for industrial co-operatives.
4. In the tractor and machinery service centres to be run by the Regional Co-operative Unions, they should be requested, to diversify their activities to include services to industrial co-operative machinery.

1. **Name of the Country:** Zambia
2. **Name of the Author:** Mr. R. Kankomba

3. **Problem Areas**

At the moment, the government has realized the need to develop small scale industries as a vehicle for providing employment. To this end, the government has now established a promotional body to provide financial and material support to new small-scale industrial undertakings. The target groups for this body are individuals as well as industrial co-operatives.

Previously the problems which have hindered the development of industrial co-operatives can be summarized as follows:

1. There has not been any organization charged with the authority and responsibility of promoting either small-scale industries or industrial co-operatives.
2. The co-operative movement has been pre-occupied with the promotion of agricultural marketing co-operatives rather than industrial co-operatives.
3. The sector of manufacturing has always been dominated by large parastatal companies whose capital outlays have been provided by the government as a way of controlling the »Commanding heights of the economy«. In some cases, these manufacturing enterprises have been established in partnership with international companies.
4. Industrial co-operative development has also been handicapped by their inability to raise funds by themselves. Furthermore, the commercial banks have not been interested in providing finance to either industrial Co-operatives or small-scale industries. Most often these undertakings have not been able to meet the traditional security requirements needed by the commercial banks.

4. **Recommendations for an Action Programme**

These recommendations are based on the fact that the government has established an organization called Small-scale Industrial Development Organization whose main function is that of promotion. The establishment of this organization has been done simultaneously with the formulation of a liberal Credit Guarantee Scheme to be operated by the Central Bank. The objective of this scheme is to induce financial institutions to enhance considerably their lending to small-scale or industrial co-operative undertakings. It is now up to the co-operative movement to exploit the services and support of the Credit Guarantee Scheme and the SIDO. To do this, the following recommendations are made:

1. The national apex organization should immediately open up collaboration with SIDO and formulate areas or programmes for industrial co-operatives. The programmes and projects of SIDO should incorporate industrial co-operatives as well.
2. To solve problems of youth unemployment, the national Apex organization should commit itself to mobilising skilled but unemployed youths into industrial co-operatives.

3. The Publicity and Information Section of the national Apex organization should embark on a programme of making the movement aware of the need and potential of industrial co-operatives.
4. The national Apex organization should consider promoting two industrial co-operatives on a pilot basis. These will act as models and should be replicable.
5. The national Apex organization should suggest amendments to the co-operative act of 1970 so that it can clearly define the role of industrial co-operatives in the general economic development.
6. The research and planning department of the Apex should be strengthened so that it can supplement the functions of the new SIDO in project identification, preparation and evaluation of industrial Co-operative projects.

PART SEVEN: RECOMMENDATIONS FOR FOLLOW-UP ACTIVITIES

The following recommendations for follow-up activities of the seminar were formulated by the participants by the end of the seminar:

1. The participants commit themselves to implement their countrywise recommendations without failure and to submit periodical progress reports to the ICA Regional Office and to SCC.
2. The final report of the seminar should be distributed to UNIDO, ILO, ICA Offices and the Polish Co-operative movement by the SCC. The participants should distribute copies of the report to their own governments and other bodies concerned.
3. There should be a continued co-ordination of the work already done (starting from the Regional Seminar in Arusha) between the individual countries in the region, ICA Regional Office and the SCC. There should be some means whereby information can be channelled to all the parties concerned.
4. Relationship between SCC, Italian LEGA, Mondragon of Spain, UNIDO, the Polish Co-operative movement and the ICA Regional Office be maintained for the benefit of developing industrial co-operatives in the region.
5. The ICA Regional Office should establish a section specifically to deal with co-ordination of industrial co-operatives. This section will serve as the »contact body» and monitor the progress during the implementation of the recommendations.
6. Through the ICA Regional Office, each participating country should submit progress reports every 6th months. This information will be disseminated to all the seminar participants.
7. The ICA accumulates documents and literature dealing with small-scale industries, industrial co-operatives or intermediate technology from various organizations for further distribution to member countries in the region.
8. This seminar should be taken as a basis for a project aimed at the development of industrial co-operatives in the region. This project would include matters of co-ordination of industrial co-operatives which will help also in monitoring progress during the implementation period, as recommended in the report.
9. Funds should be made available for pilot projects in the region which can be started along the lines recommended in this report.

10. Exchange programme for technical and managerial personnel be introduced in the region and co-ordinated by ICA.
11. One year after this seminar the participants should visit one or two South-East Asian countries, e.g. Thailand and India, to see how far the participants of the Asian Seminar in 1980 have gone in implementing their recommendations and to share experiences with them.
12. Two years after this seminar the participants should be given an opportunity to visit one or two selected countries in Africa to familiarize themselves with the actual situation obtaining in these countries and to see how far they have gone in implementing the recommendations made in this report.
13. A follow-up seminar should be held in the region in 1984/85 to review the progress of the recommended action programme for the region and the countrywise recommendations, and also to share experiences encountered in the implementation process by the respective participants.
14. The follow-up seminar should be preceded by an appraisal mission with representatives from SCC, ICA, ILO and UNIDO visiting the participating countries.

PROGRAMME

(European Study Tour)

Preparatory Part - Kenya

Wednesday September 1	evening	Arrival of the participants in Nairobi Opening/Get-together Dinner
Thursday September 2		FREE
Friday September 3	a.m.	Visit to the Starehe General Engineering Co-operative Society Ltd (designers and manufacturers of general engineering products)
		Visit to the Gikomba Motors General Engineering Co-operative Society Ltd (repairs of machinery and motor vehicles)
	p.m.	Visit to the Kenya Industrial Estates Ltd (promotion of small and medium scale industrial projects)
Saturday September 4	a.m.	Lecture: »Analysis of the economic situation in the SubSaharan Africa as a background for discussion of the justification for and potential role of industrial co-operatives in the region» - Mr. S-I Larsson
	p.m.	Presentation of the progress reports prepared by the participants
	evening	Transfer to Madrid

Study Tour - Spain

Sunday September 5	p.m.	Sightseeing in Madrid
	evening	Transfer to Vitoria
Monday September 6	a.m.	Practical matters
	p.m.	General information about Spain and the Basque Province
Tuesday September 7	a.m.	Visit to the Caja Laboral Popular, Mondragon. Lecture on the Mondragon Experience - Mr. I. Aguirre
	p.m.	Visit to Eskola Politeknikoa, Mondragon (Polytechnic School)

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Wednesday September 8	a.m.	Visit to the URSSA Industrial Co-operative Society, Vitoria (manufacturing of heavy metal structures and installations)
	p.m.	Visit to the R.P.K. Co-operative Society, Vitoria (manufacturing of spring products)
Thursday September 9		Excursion to San Sebastian and Guernica
Friday September 10		Group discussions and presentation of the observation reports from the study tour in Spain
Saturday September 11		Transfer to Turin, Italy.

Study Tour - Italy

Sunday September 12		FREE
Monday September 13	a.m.	Briefing on the Italian Industrial Co-operative Movements
	p.m.	FREE
Tuesday September 14	a.m.	Transfer to Bologna
	p.m.	Round-table discussion at the Regional Association of Industrial Co-operatives in Emilia-Romagna
Wednesday September 15	a.m.	Visit to the Co-operative «EDILTER» (large scale public works, building), Bologna
	p.m.	Visit to the Co-operative C.O.M. (furnishing and furnitures) Bologna.
Thursday September 16	a.m.	Visit to the Co-operative C.R.C. (building/construction), Ravenna
	p.m.	Visit to the Co-operative ICEL (electrical cables), Ravenna
Friday September 17	a.m.	Transfer to Venice
	p.m.	Visit to the Co-operative S. Giusto-Rinascita (services to industries e.g. industrial cleaning, transportation, maintenance), Marghera.

Saturday September 18	a.m.	Visit to the Co-operative Zetronic (small metal parts and electronic components), Padova
	p.m.	Visit to the Co-operative CLEA (housing/building), Padova
Sunday September 19		Sightseeing in Venice
Monday September 20	a.m.	Transfer to Milan
	p.m.	Round-table discussion at the Regional Association of Industrial Co-operatives in Lombardia
Tuesday September 21		Visit to CO. P.E.CO. (printing and printing techniques) Milan
Wednesday September 22	a.m.	Visit to the Co-operative C.T.A. (environment protection and research), Bergamo
	p.m.	Transfer to Turin
Thursday September 23	a.m.	Group work on the observations from the Italian study tour
	p.m.	Group work continued
	evening	Presentation and discussion of the visit reports by the groups
Friday September 24	a.m.	Plenary on the observation reports from the Italian study tour
Concluding Part of the Seminar		
Friday September 24	p.m.	Concluding group work initiated
Saturday September 25		Group work continued
Sunday September 26		Final discussion on general conclusions and recommendations by the groups
Monday September 27		Individual work on countrywise recommendations
	evening	Presentation and discussion of the countrywise recommendations
Tuesday September 28		FREE
	evening	Farewell dinner

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Wednesday
September 29

a.m.

Discussion of follow up activities
Final discussion/Closing session
Evaluation of the seminar

p.m.

FREE

Thursday
September 30

Departure of the participants

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LIST OF PARTICIPANTS

(European Study Tour)

		Work Group No.
BOTSWANA	Mr Bigboy Bubi, General Manager Botswana Co-operative Union Ltd P O Box 199 GABORONE	3
ETHIOPIA	Mr Berhanu Ejigu, Deputy General Manager Handicraft and Small Scale Industries Development Agency (HASIDA) P O Box 5758 ADDIS ABABA	3
	Mr Girma Hunde, Head, Co-operative Promotions Department Handicraft and Small Scale Industries Development Agency (HASIDA) P O Box 5758 ADDIS ABABA	1
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	Mr Fortunatus O Okwiri, Co-operative Planning Officer Ministry of Co-operative Development Planning Division P O Box 40811 NAIROBI	2
	Mr Daniel Runya, General Manager Kilifi District Co-operative Union P O Box 67 KILIFI	3
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MAURITIUS	Mr Narain P Fulena, Deputy Secretary Mauritius Co-operative Union Co-operation House Dumas Street PORT LOUIS	1

		Work Group No.
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	Mr Robert S Kuringe Industrial Co-operative Project Co-ordinator Small Industries Development Organization P O Box 2476 DAR ES SALAAM	2
	Mr Saleh H Masoli Senior Co-operative Development Officer Union of Co-operative Societies P O Box 2567 DAR ES SALAAM	3
ZAMBIA	Mr Rodwell Kankomba, Research and Planning Officer Zambia Co-operative Federation P O Box 33579 LUSAKA	1