

Kuhn, Johannes

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Intereconomics

*Suggested Citation:* Kuhn, Johannes (1974) : The role of cooperatives in LDCs, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 09, Iss. 4, pp. 116-119, <https://doi.org/10.1007/BF02927321>

This Version is available at:

<https://hdl.handle.net/10419/139004>

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# The Role of Cooperatives in LDCs

by Professor Johannes Kuhn, Marburg \*

**Socio-economic conditions in LDCs generally are featuring a more or less naked dualism. The question has to be asked whether cooperatives could not be used as tools for dismantling this dualism.**

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In LDCs, the broad masses of the indigenous population, including especially the farmers as well as unemployed and under-employed people in the towns, are mostly separated clearly from a "circulation" that sustains a modern economy, in which comparatively few people, enjoying disproportionately high incomes, are playing economically significant parts, largely at the expense of the masses which represent the overwhelming majority of the population, but who are merely existing at or barely above subsistence level. Sectoral and regional disintegration is linked with social and cultural disintegration. Between a small minority of the affluent and a big mass of an impoverished population, a huge gap yawns in most LDCs. There is no middle class bridging this gap, or if there is one, it is insignificant.

Stating this unequal dualism of LDCs' populations does not mean at all that the two vastly different social spheres would, in themselves, represent monolithic blocs. On the contrary, it is usually a fact that there are deep social cleavages within the huge mass of the poor, splitting them up through sharply-defined social boundaries and marked differences in income. This further atomisation has a number of causes, an important one being traditional social esteem clinging to a number of sharply distinguished social groups and their social institutions, especially among the population working arable land. At any rate, the actual facts of economic and social underdevelopment can be described only by painting an elaborately detailed picture using a multitude of economic, social, and cultural criteria. Overcoming underdevelopment therefore implies a task which must pay attention to numerous of different factors and influences. For example, operating on the basis of strictly economic data only, in order to promote economic development, would be utterly futile because of its lack of realism. Under the highly complex social and economic

conditions of LDCs' structures, such operations would remain unsuccessful, in so far as it is intended to improve the living conditions of the masses.

A process of development which is to improve the social, cultural and economic conditions of a given LDC, which means that the social dualism governing its internal life is to be broken up, requires that the economically and socially privileged upper crust of society must be persuaded to act more responsibly regarding society and that the members of the underprivileged population get a chance to play an active part in solving development tasks in all the various sections. That means that both the social upper crust and the underprivileged masses must change their traditional behaviour, without which traditional economic, social, and cultural institutions cannot be changed. All this presupposes a change in traditional values and customs.

Experience from LDCs demonstrates — though with variations as between individual countries and between differing supra-national spheres of culture — that the masses of the poor do not show any significant dynamism in such countries. This does not mean to gainsay the fact that there will always be individuals who undertake considerable, and often also successful, efforts for bettering themselves and their individual modes of life in adaptation to the specific local conditions of their environment. But such personal initiatives hardly ever provide for the formation of development nuclei, which would radiate their social and economic effects broadly. Widely scattered and numerous individuals which display strong willingness to help themselves, and whose individual activities could merge in jointly planned economic and social activities, are very rare, except for traditional associations, e. g. of farmers cooperating in apportioning jointly-used irrigation water, or in concentrated harvesting efforts. The reasons for this lack of cooperation are many, though they are also interdependent. Among such obstacles

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\* Institut für Genossenschaftswesen in Entwicklungsländern der Marburger Universität (Institute for Cooperatives in LDCs at the Marburg University).

are certainly strong social customs, which hinder development of any given social group but which individuals dare not disregard, sometimes because such disregard would preclude their very survival. But there are also age-old mistrust against other persons and against government in all its forms, and strong obstacles ingrained in the individual's natural, technological, and economic environment, etc.

Where there is social and economic dynamism in the process of development, it so far has hardly taken its departure from the bottom of the social pyramid. As a rule, the prime mover is government authority, which does not only provide the legal framework for economic and social developments but which, in practice, in order to accelerate the development process acts in all LDCs as the initiator and instrument of certain measures that, in western industrialised countries, would be left partly to individual business and partly to privately-formed cooperatives.

### **Western European Cooperatives**

If it is intended to interest the masses of the people to take an active part in social and economic development, as an important aspect of overall development policies, it must be asked which tools would be most suitable for such an effort. Looking at Western Europe's past during the early days of incipient industrial revolution, when social and economic conditions were changing swiftly, given the conditions of that past, we observe the spontaneous creation of cooperatives, which, even today, still form an important constituent part of our sophisticated economic system. Among farmers, the pioneering work was done by the self-help organisations formed by F. Raiffeisen in the German-speaking parts of Europe. Raiffeisen intended, primarily, to improve the lot of impoverished country dwellers who had fallen on evil days. It was Raiffeisen's intention to strengthen the material position of the individual and his family, calling upon their own will to show achievements, but also upon mutual help among cooperators, who had to be of a similar cast of mind. Among industrial workers, the process was broadly similar: the so-called "Pioneers of Rochdale" in the industrial Midlands of England were the first ones who showed the possibility to use efficiently the money they earned as wages and to make it grow, through the operations of a jointly-owned shop for consumer goods.

All these cooperatives have been, and still are, social and economic entities whose main constituents are membership of cooperators' groups and the cooperative business owned and run by them. The actual work is being done by the co-

operative business venture, mainly in the fields of the economy which have been mapped out for it by the declared will of the cooperating group. This means that the cooperative business never was its own end, but its aims had been imposed on it in advance by the members of a cooperating group whose economic requirements were to be met by the business venture.

It was of characteristic importance both for F. W. Raiffeisen's and the Rochdale Pioneer's conception of cooperation that they called for local membership only, that they tailored their cooperative ventures for local requirements and that also management and control were subject to local conditions. In other words, the formulation of principles paid attention to the social psychology, the sociological, the economic, the cultural, and other conditions of a locality. Because Western European society and economy have greatly changed since then, some of the principles of cooperation have changed with them, precisely because they grew out of an actual practical situation. However, some of the fundamental principles of the early cooperators have remained as valid as they ever were, especially the principle of self-help and independent administration by the members. The main objective of organised cooperation, which is "promotion of the members' interests" has, of course, remained the same as it was in the beginning, for all the activities of any cooperative business. This has enabled West European cooperatives, which have grown spontaneously from the basis upwards, to play a very important part in integrating society by making formerly underprivileged social groups active and more affluent.

### **Cooperatives as Tools of Development**

Is it not, then, possible to use cooperatives as a promising tool of social and economic development in LDCs? In most of these areas, numerous cooperatives had already been set up dozens of years ago, and more of them since the end of the Second World War. Because there was a lack of cooperative dynamism at the basis, such cooperatives were usually formed by governments, some of whom also took it upon themselves to manage such cooperatives, or at least to control their management. However, broadly speaking, the results of such endeavour have not been satisfactory so far. This is probably due to quite a number of different causes, which again may differ from one region to the next. In the search for the causes of such failures, it will certainly be necessary to ask whether founder members' motivation was insufficient, which means: that they were not fully convinced that cooperation would improve their standard of living, that they

doubted that the management of the cooperatives was fully capable of tackling the tasks set them, and that they did not feel convinced that the programme of action mapped out for the cooperatives had a real chance to succeed under existing conditions, mainly in the economic and technological framework of the whole developing society, etc. It can be safely assumed that very often there was a lack of sufficient adaptation of the structure, the size, and the type of a given cooperative venture and of its activities to local conditions, as well as a lack of the will to cooperate among the local population. This means that many cooperatives, because of the absence of such conditions, should not have been set up at all.

Cooperative principles and the rules for acting cooperatively, historically grew up among specific cultural, social, and economic conditions in Western Europe, and they will work only under comparable conditions elsewhere. To transplant them to the fundamentally different conditions in LDCs is futile and will lead to failure, unless certain reservations and adaptations are made. However, what could be transplanted from Western Europe to completely different social surroundings is the principle of self-help, combined with mutual aid. But how these principles are operated in practice, or were used in Western Europe during the 19th century, and are being used now in Western European industrialised societies, can only be partly imitated in LDCs, because economic conditions under which LDC populations live, and the social order prevailing there, are vastly different from Europe. To adapt the general principle of self-help in locally suitable forms to LDC conditions is therefore an indispensable task of independent and original thought. But the cooperative will to help themselves, which will lead to so many practical acts of self-help, does not grow spontaneously among the masses of the people in LDCs, and therefore, as a rule, requires some outside moving agent. Yet such outside influence must be connected, right from the beginning, with the knowledge that the success of all self-help actions and all personal advantages flowing from them is indissolubly tied to the personal contributions of the members who must behave cooperatively. Otherwise, no cooperative venture will be able to earn its keep, not to speak of potential profits for the cooperators themselves.

Development, and more so, the growth of the will to self-help, frequently only follows successful actions. That is why creating the motivation for cooperative self-help ought nearly to coincide with a well-measured application of it in forms responding to the actual situation, which will go to strengthen the will of cooperators to help themselves.

Motivating and activating self-help, for all cooperatives — no matter what practical, mainly economic tasks have been set for cooperative business ventures — is an eminent task inherent in their activities. The work of cooperative business will always be tied to developments inside the cooperative (the cooperative behaviour of members, acquisition of suitable equipment, recruiting of skilled staff, etc.) and in the outside world in which it operates (the state of local law, the infrastructure of transport, and existing markets, etc.). In addition, the kind of operation any cooperative venture can undertake depends also on the interests of members in the forms in which they create income. In cases where cooperators run their own businesses, the tasks of cooperation are focussed on support to be given the business activities of members, but if members draw their income from wages or salaries, the main task of cooperation will be an improvement in the forms of spending such income — e.g. through centralised purchase of consumer goods and offering the services of a savings bank.

#### Tasks for Cooperatives in LDCs

The majority of LDCs' populations are peasant farmers, whose own businesses are small or even of marginal dwarf size. The main field of operating a coop will therefore be that of a farmers' self-help association. Farmers who are members of a cooperative are interested mainly in their joint business venture affording them assistance for their farming activities and for selling their farm produce. In almost all cases, cooperative businesses of this kind have to look after:

- ☐ the acquisition of equipment, materials, and services;
- ☐ marketing of produce, in some cases after processing, and
- ☐ bridging finance, very often through obtaining credits for their members.

All these tasks require work which the smallholder, on his own, cannot take over, or if he does, he will do it so much less efficiently than a cooperative business which looks after a multitude of similar interests and, through the economies of scale flowing from larger turnovers and from the marketing power based upon it, will be able to earn better financial results. The advantages of purchasing equipment through a centralised agency can be increased by the use of such equipment in rational ways by members, for which purpose expert advisory functions devolve upon the cooperative business.

Centralised purchasing, marketing, and financing are largely complementary in a farmers' cooper-

ative and closely tied to each other. This frequently leads to the decision not to set up specialised but multi-purpose cooperatives to look after these three fields of operations jointly. Decision-making in this and other areas, however, for example as to which types of other tasks, and to what extent, a cooperative business can tackle, cannot safely be left to the independent decision of individual cooperatives from their own operational interest, but they must be obliged to use as their yardsticks the relevant operational minima, lest failure be, so-to-say, pre-programmed. Such operational minimum requirements are frequently among other things, the specialist skill of the managers, the lack of capital among members, etc. These minimum requirements do not only delineate clear outer boundaries for the number of tasks that cooperatives may assume but also for the ways and means and the size in which such tasks can be solved. Thus, in almost all cases, advice and dissemination of information by the managers and/or managements of individual cooperatives will be restricted to the peasants that are members being told about the general importance of the cooperative venture, about the significance of certain problems of cooperative policy, and about the need for members to behave cooperatively. On the other hand, almost no individual cooperative will be able to provide thorough agricultural and management advice. Therefore, it will be essential for the government to undertake the formation of such advisory and training services, which must pay regard to the membership of farmers in cooperatives and the questions of management and agricultural practice that arise therefrom.

### **Government-controlled Cooperatives**

Most cooperatives in LDCs have been set up by governmental acts and frequently they are also government-controlled. Taking over responsibilities of cooperative organisations of self-help by the state's bureaucratic machinery, however, gives rise to some important difficulties. Some of them may be briefly summarised here:

☐ Members are often far from being genuinely convinced that a cooperative set up by government will operate only in the members' interest and will be owned by them. In such cases, their personal engagement, especially through providing risk capital for the cooperative venture, and through doing unpaid work for it, will be weak. Their main interest will be the material benefits likely to flow for them from the cooperative, but not their own contributions.

☐ Motivation and activation of cooperators will become — for the reasons already stated — a

highly frustrating enterprise for the government-appointed manager, which may kill his own interest in such efforts. He will become, by preference, an obedient executor of rules and regulations issued by the government, and will fail to become the individual protagonist of cooperators' interests.

☐ Management by government agents, once imposed on a cooperative, will rarely do much, as experience shows, to make itself superfluous by mobilising motivations and activities of coop members, who, by definition, ought eventually to take over management and control of the cooperative business in question.

☐ Where government is responsible for management of a cooperative, the danger will persist of misuse of individual cooperatives for carrying out overall economic policy measures, which operate against the cooperators' own interests — e.g. government may take large fiscal "takes" from the regulated prices of farm produce. Such measures that may be inevitable from an overall economic point of view must be introduced by government outside the framework of cooperators' businesses, lest the cooperators' will to help themselves be effectively killed.

### **The Need for Suitable Strategies**

In spite of all the problems enumerated, most countries of the Third World will not be able to avoid, for the foreseeable future, government action for initiating cooperatives, and for an initial period, also managing them. Nevertheless, the question must be asked: is it really utopian to hope for finding a larger number of free, social, though state-aided forces interested in the creating of a genuine cooperative movement?

To induce independent activity among the mass of the people, which is economically weak, in LDCs is an important task among the many with which any national development policy is faced. There is no doubt that a truly cooperative movement could become an excellent social and economic tool for self-help especially in such LDCs, where it is intended to create strong incentives for the individual to build his own profitable life through his own efforts within a society that has necessarily still to be guided by social and economic planning for change. The failures of cooperative efforts that have been registered so far should therefore not lead development policies to do without institutions for economic and social self-help and without their use as a development tool, but they should devise suitable forms of organisations and strategies for mobilising the energies of self-help in forms germane to their real situation.