

The Role of Cooperative Societies in Sustainable Economic Development in Underdeveloped Countries

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Abstract—The cooperation is as old as human society. The history of modern civilization is, in fact, the history of cooperation, for without it social and economic progress would have been impossible. This paper examines the role of cooperative societies in sustainable economic development in underdeveloped countries. The aim is to investigate the ways in which cooperatives can act as agents towards sustainable community development. The paper is a descriptive survey, which involves the collection of data for describing the role of cooperative societies in economic development. The paper posits that for over 160 years now cooperatives have been an effective way for people to exert control over their economic livelihoods as they play an increasingly important role in facilitating job creation, economic growth, and social development. The paper concludes that to be effective and successful, cooperatives must continuously achieve two inter-related goals: enhance viability and improve ability to service its members; and remain an economically viable, innovative, and competitive enterprise.

1. INTRODUCTION

Co-operation is destined to play a decisive and effective role in the world economy. Even the co-operative development all over the world has not been one straight line, and at various times the co-operative movement has cleared the dynamic character of co-operative activities suiting the local and regional environment and economic and social situation. All this is the indicative of one basic fact that co-operation has been alive to the changes of time and concept is dynamic and an ever-absorbing one. Co-operation is an activity of the people. It is a self-generated, voluntary, and self-sufficient activity. Co-operation is an activity of the people. It is a self-generated, voluntary, and self-sufficient activity. Cooperation has always been a feature of humankind. Essentially co-operation is an activity of the people for mutual help and collective progress. As a modern phenomenon, the co-operative form of business organization originated in England amongst the industrial workers in the mid-nineteenth century. Co-operatives started as an urban consumer stores but soon spread to rural areas amongst farmers. Workers had nothing to sell but their labor, as it was a buyers' market. Those who

failed to find work in the factories were forced either to rely on insufficient rural assistance, or to starve. By the early 1800s, food prices were artificially high and wages were being reduced, while much of the population suffered extreme poverty and scarcity. During the latter part of the nineteenth century, the concept enhanced several parts of Europe and North America.

The earliest co-operative were established among the weavers, workers in cottage industries, who were suffered by moneylenders and mercantile economy during the industrial revolution. The real co-operative movement can be credited to Rochdale Pioneers who established the co-operative consumer store in North England, which can be called as the first in the co-operative consumer movement. Around this time, the co-operative movement was more at a practical level. In Great Britain, Robert Owen (1771-1858) established self-contained semi-agricultural, semi-industrial communities. He put this into practice in New Lanark, Scotland, where his own business was based. Dr. William King (1757-1865) helped to spread Owen's doctrine; his ideas were more reasonable than Owen's and achieved more results.¹ In France Charles Fourier (1722-1837) published a Treatise on Domestic Agricultural Association in 1822, first time on co-operation and Saint – Simon (1760-1865) worked on various theories of „associations“. Schulze-Delitzsch (1808-1865) was the promoter of urban co-operatives and co-operatives in handicrafts, while F.W.Raiffeisen (1818-1888) did the same for rural credit co-operatives. Early in the twentieth century, the cooperative movement spread to India and gradually to other Asian and African countries; mainly courtesy of the colonial administrators. The co-operative movement became a form of business organization recognized as an international movement. Although some associate it with socialist or communist countries, the cooperative movement also operates in capitalist countries such as the United States of America, Canada, Israel, and Australia. An Indian Registrar of Co-operatives appropriately described the co-operative movement

as representing: a happy mean between the forces of extreme individualism on the one hand and socialism and communism on the other. It stands for individual rights tempered by considerations of justice, equity, and fair dealing as between man and man, and its one great aim is to prevent the exploitation of the weaker by the stronger party.

2. THE PROBLEMS

The problem is that many people do not know much about cooperative, its mechanisms and role in economic development, and how it is considered in the world as a Third Force, an alternative and countervailing power to both big business and big government.

3. OBJECTIVES

This paper examines the role of cooperative societies in economic development with a view to throwing some light on the nature and features of cooperatives, the benefits and the formation and management of cooperative societies and the Challenges of Cooperative Societies. The paper investigates the ways in which cooperatives can act as agents towards sustainable community development. **

4. METHODOLOGY

The paper is a descriptive survey, which involves the collection of data for describing the role of cooperative societies in economic development. The remainder of the paper is organized as follows. Section two gives a background on cooperatives, which serves as the theoretical framework. Section three assesses the role and mechanism of cooperative societies. Section four highlights the steps involved in starting a cooperative. Section five discusses the challenges facing cooperatives and section six summaries and concludes the paper.

5. THE ROLE OF COOPERATIVES IN ECONOMIC DEVELOPMENT

Cooperatives are community-based, rooted in democracy, flexible, and have participatory involvement, which makes them well suited for economic development (Gertler, 2001). The process of developing and sustaining a cooperative involves the processes of developing and promoting community spirit, identity and social organisation as cooperatives play an increasingly important role worldwide in poverty reduction, facilitating job creation, economic growth and social development (Gibson, 2005).

Cooperatives are viewed as important tools for improving the living and working conditions of both women and men. Since the users of the services they provide owned them, cooperatives make decisions that balance the need for profitability with the welfare of their members and the community, which they serve. As cooperatives foster economies of scope and scale, they increase the bargaining

power of their members providing them, among others benefits, higher income and social protection.

Hence, cooperatives accord members opportunity, protection and empowerment - essential elements in uplifting them from degradation and poverty (Somavia, 2002). As governments around the world cut services and withdraw from regulating markets, cooperatives are being considered useful mechanisms to manage risk for members and keep markets efficient (Henehan, 1997).

In a number of ways, cooperatives play important role in global and national economic and social development. With regard to economic and social development, cooperatives promote the "fullest participation of all people" and facilitate a more equitable distribution of the benefits of globalization. They contribute to sustainable human development and have an important role to play in combating social exclusion.

Thus the promotion of cooperatives should be considered as one of the pillars of national and international economic and social development (Levin, 2002). In addition to the direct benefits they provide to members, cooperatives strengthen the communities in which they operate. According to Somavia (2002), cooperatives are specifically seen as significant tools for the creation of decent jobs and for the mobilization of resources for income generation. Many cooperatives provide jobs and pay local taxes because they operate in specific geographical regions. According to Wikipedia (2006) and Levin (2002), it is estimated that cooperatives employ more than 100 million men and women worldwide.

6. CHALLENGES OF COOPERATIVE SOCIETIES

Cooperatives the world over are in a state of flux. In almost all parts of the world, cooperatives face one or more of the following crises: crisis of ideology, crisis of capital, crisis of credibility and crisis of management (Taimni, 1997). Cheney (1995) identified five challenges facing cooperatives. These are cultural transformation, competition and expansion, wage solidarity, centralization and reorganization, and programmes to increase productivity and participation. Groves (1985) on the other hand, posits that one of the major problems of cooperatives is how to keep balance in the two parts of cooperative business, efficiency and democracy since those who are charged with the operation of a cooperative chiefly the board and manager must serve two masters: the imperatives of good business practice and then social purpose of a community of people. Hence, to maintain their special character, cooperatives must be two things in one: a business organization and a social movement. This is what makes a cooperative a business enterprise with a human face and so, very difficult to manage. In striving for efficiency, cooperatives often tend to imitate other business, but in pursuing a social purpose, they bring out the features, which make them different (Laidlaw, 1974). Educating, training, retraining of members in general, and officers in particular are always a challenge to cooperatives especially in developing

countries. A cooperative without a strong component of education is in danger of losing its essential character, that is, the human and personal characteristics which distinguish it as a cooperative. Education is of paramount importance to the cooperative sector. Unless all those responsible for cooperatives (directors, officers, members, staff) are well informed and knowledgeable, cooperatives are likely, in some countries, to become much like capitalist, profit-seeking business, or in other countries to become handmaids of the State. Education makes people easy to lead, but difficult to drive; easy to govern but impossible to enslave.

Assuming the validity of the sector concept (the "mixed economy", as it is often called), cooperators face such questions as what type of business activity is most suitable for each of the three sectors, public, private and cooperative? Are there certain kinds of business that rightfully belong to the public sector? Are there others, which are best left to private enterprise? What kinds, ideally, are most suitable for the cooperative way of business? Are there some fields in which all three may engage and compete? Hence, one other challenge that cooperative societies face is the choice of business most suitable for the enterprise.

Another challenge facing cooperatives is adaptation. No business in a national economic system is completely independent and self-sufficient but operates in conditions of dependence and interdependence. Both capitalist business and cooperatives depend to some extent on the State and services provided by the State (highways, water supply, the postal system, etc.). Similarly, the State and public enterprise depend greatly on private enterprise, or on cooperatives. Sometimes private-profit business depends on cooperatives. And, of course, the reverse, cooperatives depending on private business in some way or other, is quite common. Thus, cooperatives cannot be thought of as an exclusive economic system but rather as one section of the total economy. They constantly operate in co-existence with other forms of business and sometimes in conjunction with them. Cooperatives therefore, have to adapt themselves by struggle in one place, by agreement in another - to the elements of a complex environment, partly free and partly organized. It must now decide what place it means to claim for itself either in the new economy, organized or in process of organization.

In addition, the cooperative sector suffers from an internal handicap of its own making: the frequent failure of various types of cooperatives to work closely together as a sector. Because of their voluntary and democratic nature, cooperatives have been reluctant to impose strict disciplines on themselves - they much prefer to act by common consent and persuasion. Often, management of cooperatives relies on relationship or is moved by sympathy to act against even the societies' bylaws. This indeed has a lot of repercussion particularly in the developing economies and is against the 6th principle of cooperatives: Cooperation among Cooperatives. The different needs of customers, members, patrons, and

owners challenge the cooperative's board of directors and manager to make good business decisions. Business earnings of the cooperative must be great enough to systematically rotate the investment of members, pay patronage, and offer goods and services at reasonable prices, or pay fair market value for customer's products. This unique business structure dictates that the manager, board of directors and members understand the business and cooperative structure.

Once this is done, it is hoped that cooperatives would be able to overcome the problems and challenges facing them. It however, calls for maintaining balance between economic and social purposes, emphasizing differences, relating with other cooperatives both at national and international levels, and maintaining a favorable public image.

7. SUMMARY AND CONCLUSION

A cooperative is a unique form of business used by people and businesses for their mutual benefit. Regardless of its purpose or membership, starting a cooperative requires considerable time, energy, commitment, and technical resources. Recognition of a common need is fundamental to the formation and successful operation of a cooperative. Potential members must devote much time and energy to developing their new business. A cooperative requires member commitment to finance and use the business and select knowledgeable directors who hire a competent manager. A strategic business plan is important to harmonize all of the elements for the cooperative's success.

In order to achieve their maximum strength and effectiveness, cooperatives of various kinds must regard them and, as far as possible, act as a distinct sector within the national economy of any country. As business organizations, cooperatives are partly private, partly public, but essentially different from both private enterprise and public enterprise. They are a "middle way", an economic sector in their own right. Cooperatives must play the role of a Third Force, an alternative and countervailing power to both Big Business and Big Government. A cooperative is a business enterprise in which the elements of ownership, control, and use of service are united in one group of persons. The distinguishing feature of cooperative business is its dual nature as economic enterprise and social organization.

An economy based on one form of business organization alone is neither desirable nor possible in modern times. The best economic order is achieved through a mixed economy. To justify their existence and fulfill their purpose, cooperatives must make a significant and unique contribution to solving some of the massive problems facing humanity today.

Governments are expected to provide a supportive policy, legal and institutional framework, provide support measures based on activities, provide oversight on terms equivalent to other forms of enterprise and social organization, adopt measures to improve access to finance for disadvantaged

groups, and topically, to promote the formalization of the informal economy. Government can contribute significantly to improving cooperative performance by facilitating access of cooperatives to support services, particularly support to cooperative human resource development.

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