

MATCOM

- A HANDICRAFT CO~OPERATIVE
Formation

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MATCOM
Material and techniques for cooperatives management training

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In collaboration with cooperative organizations and training institutes in all regions of the world, MATCOM designs and produces material for the training of managers of cooperatives and assists in the preparation of adapted versions for use in various countries. MATCOM also provides support for improving the methodology of cooperative training and for the training of trainers.

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A HANDICRAFT CO-OPERATIVE

– FORMATION –

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Foreword

This material was prepared with the following specific intentions:

- to stimulate interest among women in starting income-generating activities;
- to make them aware of the possibilities for organising such activities on a co-operative basis;
- to provide the basic know-how for that co-operative organisation.

The booklet can be used for both independent and group study, providing the basis for informational meetings as well as formal training programmes. Suggested guidelines for leaders of such programmes are annexed on page 47.

Should study of this material lead to the formation of a co-operative, further training may be indicated for women who emerge as leaders after the initial activities. A second MATCOM booklet ("A Handicraft Co-operative - Management") offers essential material for potential committee members and secretaries/managers.

The contents of both booklets can be readily adapted to local conditions and needs and used for any group, not just women, and for any co-operative activity, not just handicraft.

INTRODUCTION

Most people want to earn more money to improve their lives and those of their families. For many women, however, earning more money remains a dream never realised. They may work hard - but their work is unpaid or underpaid.

Women are often highly skilled at handicraft, making the cloth and clothing, pottery, mats and baskets essential to their households. Many women have realised that such work can bring in money; if they produce more than they need themselves, they can sell it for cash. Other women have started such income-generating activities as baking bread, preparing meals and popular snack food for workers, raising poultry, growing fruit and vegetables, making bricks, soap, candles and other saleable things.

These activities can usually be carried out more effectively together with other women rather than individually. But it is not easy to begin such groups and even harder to keep them going as profitable business ventures. Above all else, leaders are required - leaders who have patience, stamina and initiative, who are motivated to help others as well as themselves, who know something about business or are willing to learn.

If you are such a woman, this booklet is for you. It offers an introduction to co-operative work, explains some business principles and shows how a co-operative is organised.

The main example used here revolves around the making of handicraft items but of course many other activities can be organised co-operatively. Whatever type of business you are interested in, you can use this example to learn the basics of co-operative organisation.

CAN A CO-OPERATIVE HELP?

The problems

Ann worked hard to see that the limited amount of money her husband earned went as far as possible. But the family expenses were increasing. Soon the oldest boy would be ready for school. Money would be needed for his school fees, uniform and books. Ann was also expecting another baby and was worried about the extra expenses that would mean. If only she could do something to earn a little extra cash! Someone had recently told her that she made the nicest mats and baskets in the whole district and suggested she sell them. Could she really....?



Sara supported herself and her children by making mats and selling them in the street. Often she borrowed from a money-lender to buy the raw material she needed. Once she repaid him she still had very little money left, because he charged very high interest rates. When she could not sell her mats, she went into debt to him - and her children went to bed

hungry. The money-lender ended up with most of her earnings, but without him, how could she get her supplies?



Mary was a widow. She did not want to be a burden on her grown children. They lived far away in the city with their own families and problems. She supported herself by growing and selling fresh vegetables and by weaving straw baskets and hats. She sold these to a trader who came by once every few weeks. Mary knew he paid her very little and yet sold her goods for a lot of money in the city. But she could not get there herself. Did she have any other choice but to sell to the trader?



DISCUSS

1. The short stories about Ann, Sara and Mary show us some of the difficulties women have earning money. Discuss and identify in each case the reasons why these women did not earn a reasonable income from their work.
2. What could they do to improve their situations?
3. The women in your area may have similar problems. Describe a typical situation. List the problems. What prevents the women from earning a decent income?
4. What kinds of activities might be suitable for women in your region to earn extra money?

Notes for the study leader

The group discussions should bring out the following points:

1. Ann had thought about ways to earn money but had done nothing about it. She was probably not sure whether or not she would be able to sell her goods. She did not take any initiative herself.

Sara needed credit; she was in the hands of a money-lender who got most of what she earned. She did not know any other way to get the supplies she needed.

Mary was paid very little for her goods because the "middleman" (the trader) not only had to pay his own costs but wanted to make a big profit for himself.

2. It is enough, at this stage, to establish the following facts:

If women produce goods to sell, it is important that they obtain their raw material at the lowest price and sell their goods at the highest price possible. The services of money-lenders, private traders and other middlemen may sometimes be needed but carry a risk of exploitation.

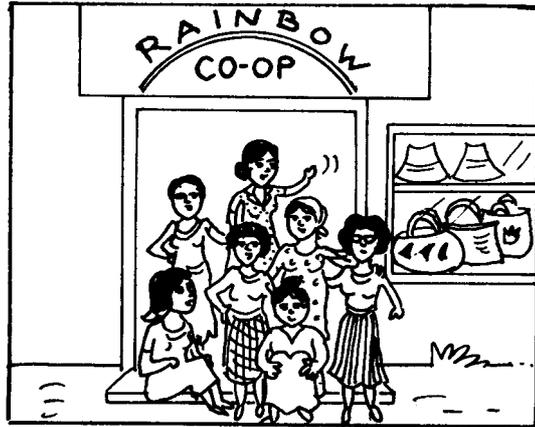
3. When discussing the local situation, try to elicit mention of all possible income-generating activities, tried and untried, not only handicraft-making.

A solution

Think again about the problems of Ann, Sara and Mary. They had problems with supplies, with credit and with the marketing of their goods. Alone and independently, it was impossible for them to solve their problems.

But they found a solution. Together with other women, they started a business, a co-operative society. They called it "The Rainbow Handicraft Co-operative".

We will explain how it was set up so that you can learn from them.



The beginning

The members of Rainbow make handicrafts in their own homes, in the time they have after their ordinary household work. Their co-operative provides raw material (supplies) on credit as needed and a way to sell (market) their products. Ann, Sara and Mary had started the co-operative to eliminate problems in those areas and to help themselves and other women earn money.

At first the women had done a lot of talking and decision-making. At one of their initial meetings, many women had voiced their doubts and fears:

- "A bunch of women like us can't do anything but talk. Most of us can't even read and write. We don't know anything about co-operatives - how can we hope to take on such a big job?"
- "Just exactly what sorts of products are we going to make? Do we have the necessary skills?"

- "Will we be able to find buyers for all our goods?"
- "Will we be able to raise enough money to buy the materials we will need?"
- "Forming a co-operative takes time. I am already so busy with the home and the family, I don't think I will have time to participate in this co-operative."



But in that meeting there was also courage and a sense of strength from common action:

- "We all have a lot in common. We have the same sorts of needs and the same sorts of problems. Alone we have not been able to solve anything. Together we will be strong enough to change things for the better. Our only other choice is to stay as we are, in situations not likely to change."
- "Many believe that it is not proper for a woman to interest herself in things outside the home. They should be made to realize that we are forming this co-operative exactly because of our families. People will not believe

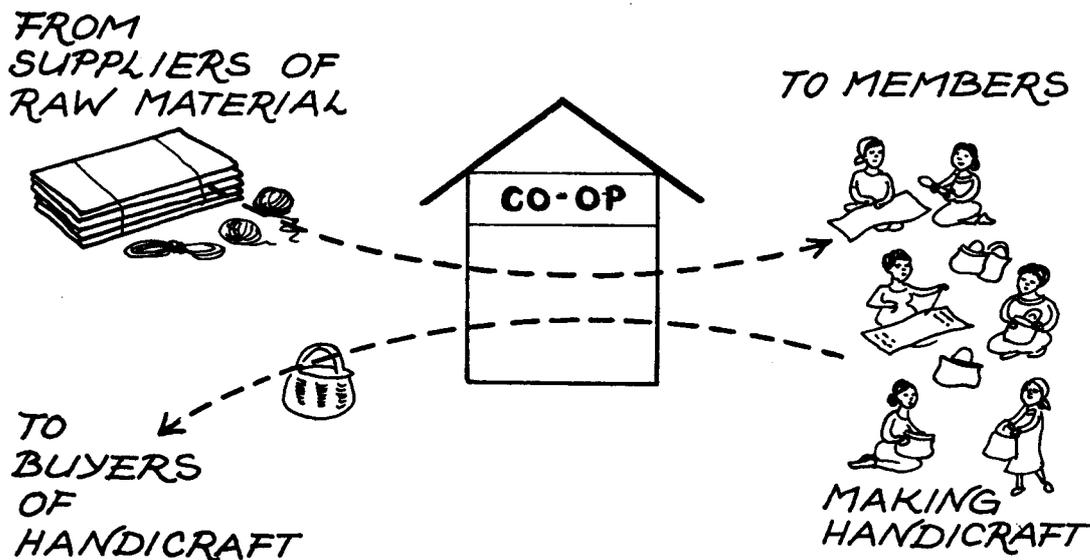
that women can form a co-operative and run it. We must show them that we can do it."

A supply and marketing co-operative

Rainbow Handicrafts rented a little store-room and set up one corner as an office. The members of the co-operative go there to buy the raw material for the handicraft they make in their homes. When they have something ready, they take it to the co-operative where they are paid for it in cash.

If a member does not have the money to buy her material, she is given them on credit. When she later delivers her work, she receives enough cash to pay back the credit and still have money left over.

Here we can see the role of the co-operative:



- Supplies (raw materials) go from the suppliers to the co-operative and in turn to the members.
- Handicraft comes from the members to the co-operative, to be sold there or at big shops in the cities.

- The members do not need to go to town to buy supplies or to sell their handicraft. They simply go to their co-operative for everything. Rainbow acts as both supplier and salesman.

The co-operative is well organised. Supplies of raw material are neatly stocked in the store. Because Rainbow buys materials in large quantity for all its members, the suppliers sell them more cheaply than they would to individuals. The women share the benefit of this. The society has also managed to find customers willing to buy at a fair price whatever the members produce.

The co-operative store is the actual place of business where the members go to buy and sell. But it is something more than that as well; the members enjoy visiting their co-operative. They meet other women there, have interesting, useful and pleasant conversations, learn from each other and feel a sense of community and self-respect.



DISCUSS

1. Like the members of Rainbow, you must consider many questions before you can decide whether or not a co-operative can help you. Make a list of those questions. Which ones concern you the most?
2. You may know agricultural co-operatives in your region working the same way as Rainbow does to provide supply and marketing services. Do they have any particular problems that you know of? If so, describe them. Discuss with your group whether a small handicraft co-operative would risk encountering the same kind of problems.

Notes for the study leader

1. The questions above help you to identify what information the group needs. Every effort must be made to provide it during the coming meetings.
2. The group members should be told that all their questions cannot be answered at once. For example, details as to the economics, the funding and the organisation of a co-operative will be discussed later.



BASIC ECONOMICS

Supply services

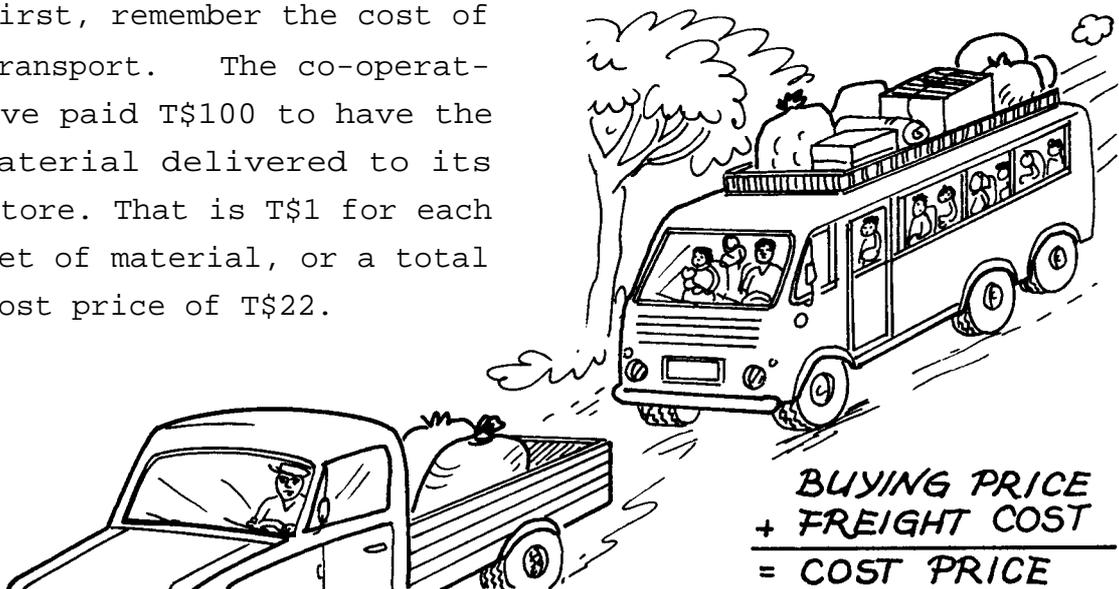
Before the Rainbow Handicraft Co-operative started, the women bought their supplies from private traders in town. The material to make a single basket cost about T\$28*. In addition, it cost money to travel to town.

When the women joined together, the co-operative was able to place a big order for material for 100 baskets at a price of T\$2,100 - or only T\$21 a basket. This was T\$7 cheaper than before!



But it was impossible for the co-operative to sell the material to members for T\$21. Why?

First, remember the cost of transport. The co-operative paid T\$100 to have the material delivered to its store. That is T\$1 for each set of material, or a total cost price of T\$22.



We use an imaginary currency, because this booklet is used in many countries. We call it "Training DoLLars" (T\$).

The society had other costs as well. It had to pay rent for the store; it had to buy the books for record-keeping; it had to pay some salaries. The society had to earn the money for such expenses, the running costs of the supply service.

Therefore, it marked up the price of the raw material like this.

$$\begin{array}{rcccl} \text{T\$22} & + & \text{T\$3} & = & \text{T\$25} \\ \boxed{\text{COST PRICE}} & + & \boxed{\text{MARK-UP}} & = & \boxed{\text{SELLING PRICE to members}} \end{array}$$

As you see, the Rainbow Co-operative tried to earn a margin of T\$3 on each set of material. A private trader would do the same, but there is a difference. The trader wants to keep as large a profit for himself as possible, in addition to paying his costs. His selling price for raw material would be higher than the co-operative's.

Last year, the members made baskets only. Rainbow Co-operative sold material for 500 baskets to its members. That gave the following result:

$$\begin{array}{rcccl} \text{T\$12,500} & - & \text{T\$11,000} & = & \text{T\$1,500} \\ \boxed{\text{SALE TO MEMBERS material for 500 baskets (500 x T\$25)}} & - & \boxed{\text{COST OF MATERIAL paid to supplier and transporter (T\$500 x T\$22)}} & = & \boxed{\text{SURPLUS to be used for running costs}} \end{array}$$

Supplies on credit

One problem in many supply co-operatives is that the members are short of money most of the time and cannot pay cash for the supplies they need. But they will not be able to produce anything if they are not allowed to buy their supplies on credit.

Individual members in Rainbow sometimes need to ask the co-operative for credit: "If you give me the raw material I need now on credit, I will make a basket and bring it in next week. When you pay me for it, I will pay you back the amount I owe for the material."

In Rainbow it was decided to provide such credit assistance to members. But to do it, the co-operative needed more money. It had to obtain a bank loan and to pay the interest on it. In addition, the credit service required more book-keeping - another extra cost to the co-operative.

Credit is a problem and a risk in all businesses. Most consumer co-operatives for this reason never offer credit in their shops.



Marketing services

Before Rainbow Handicrafts began, the women making handicraft items sold them to private traders. The traders dealt with each producer individually, buying her goods for as little as possible (usually about T\$40 for an ordinary basket), and selling them in turn for as much as possible (T\$50 - 55). The difference in the amounts made up his profit and the payment for his work, his travel and his other expenses.

The women had little choice but to take what they could get from the trader. Even if they knew it was too low, it was better than nothing as they were often in debt for supplies or otherwise in need of immediate cash.

Now the women market their work through the co-operative. It sells the handicraft on behalf of the members. They receive the highest possible prices for their products because there is no middleman taking a profit for himself.

Last year, the co-operative sold many baskets at T\$50 each. But the members could not be given all that money. Some of it, as we have seen, had to go for the running costs.

What about the running costs in the marketing service? Well, someone has to maintain the books and keep the store open a few hours every week so the members can deliver their handicraft. Someone has to travel to town and negotiate with the shopowners and other customers there. Although some women work as volunteers in Rainbow, others must be paid. Freight costs for all the baskets must also be paid.

When the co-operative has sold the handicraft, it must retain some of the income to pay these costs. We say that the co-operative takes a commission on the sales. The rest of the income belongs to the members, of course.

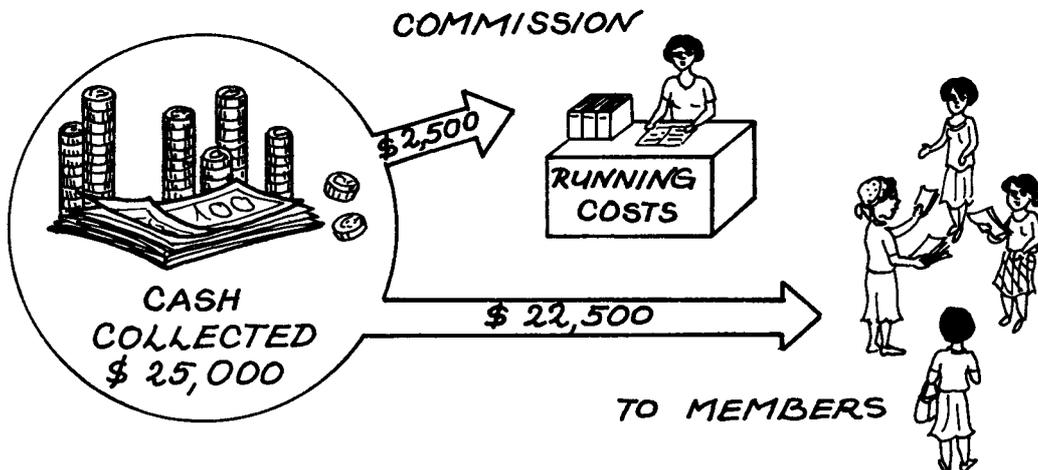
The following example shows how it works:

Rainbow sold standard baskets last year at T\$50 apiece. The co-operative kept T\$5 as commission. The rest was used as payment to the members for their work (T\$45). This is T\$5 higher than the traders used to pay.

T\$50	-	T\$5	=	T\$45
RECEIVED FROM CUSTOMERS (for each basket)	-	COMMISSION KEPT BY CO-OPERATIVE	=	PAID TO MEMBERS (for each basket)

Last year Rainbow members sold 500 baskets through their co-operative. The commission amounted to T\$2,500, more than enough to cover operating costs.

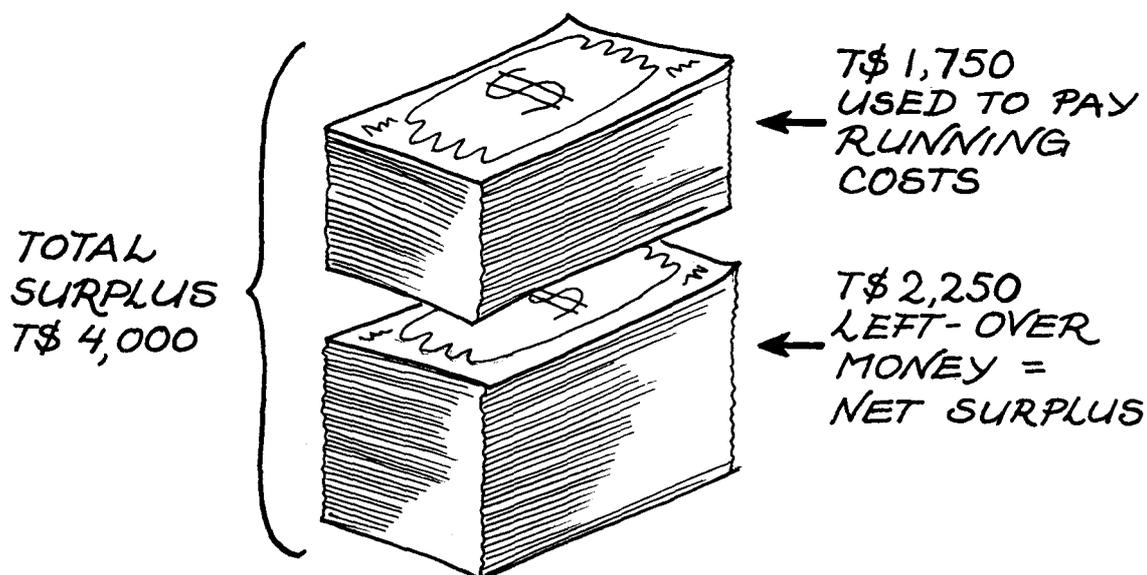
T\$25,000	-	T\$2,500	=	T\$22,500
RECEIVED FROM CUSTOMERS (for 500 baskets)	-	COMMISSION KEPT BY CO-OPERATIVE	=	PAID TO MEMBERS (for 500 baskets)



Let us now sum up the economics of Rainbow Handicrafts, as they were last year:

- The members could buy a set of raw material at T\$25 from the co-operative, receiving T\$45 for each good basket they delivered. They were quite happy with this, as they earned more than they **had before**.
- The co-operative itself also earned income from this procedure: T\$1,500 from the supply service and T\$2,500 from the marketing (or T\$4,000 altogether).
- This amount (T\$4,000) was used to pay the costs of running the co-operative. When they had all been paid, there was still some money "left over", a net surplus. If there is no such surplus, a co-operative may be in trouble. But the leaders of Rainbow had planned their business well, the members had made good use of its services, and the society made a net surplus.

T\$4,000	-	T\$1,750	=	T\$2,250
<div style="border: 1px solid black; padding: 5px; width: fit-content;">SURPLUS from supply and marketing</div>	-	<div style="border: 1px solid black; padding: 5px; width: fit-content;">RUNNING COSTS</div>	=	<div style="border: 1px solid black; padding: 5px; width: fit-content;">NET SURPLUS</div>



Capital

We have learned that Rainbow eventually earned a surplus on its business and could pay wages, rent and other costs to keep going.

But how did it manage in the very beginning? The women forming it had no money at all the day they decided to start a co-operative.

It is quite obvious that without capital, Rainbow Handicrafts could not have begun. Money was needed right away to buy the first supplies and to pay some other expenses before any surplus had been earned. All expenses had to be calculated very carefully before starting the co-operative. How much did the women need and where could they get it?

Sources of capital

Much of the capital needed to start a co-operative must come from the members themselves. If they are willing to contribute one can see that they believe in what they are doing. Banks and other organisations (potential sources of capital) take it as a sign of member commitment and may then be willing to help.

Entry-fee

The members of Rainbow decided that each of them should pay a small, non-refundable entry fee. This would raise money - and also help determine who was serious about membership.

Share - capital

In addition, each member had to loan money to Rainbow to share in raising some of the capital needed. Such money each member is required to contribute to a co-operative is called share capital. It remains the property of the member

who paid it although it is used by the co-operative. When a member pays in her contribution, she receives a share certificate. This shows that she is a shareholder in the society. Thus, to "buy shares" in the society simply means to lend the society money that will be used to finance its operations.



A co-operative may pay the members for the use of their share capital in the same way a bank pays interest or a dividend on deposits in a savings account. A Rainbow member receives T\$10 each year as interest if she has bought T\$200 worth of shares.

According to the rules of Rainbow Handicrafts, each member had to buy T\$200 worth of shares. However, the rules also said that members could pay for these shares in instalments. A small amount could be deducted from a member's payment each time she brought in some baskets.

Grants

The women found that they also needed other sources of capital. It took a lot of patience and "door-knocking". A local church organisation that was trying to improve opportunities for women came to their help. A representative was invited to attend several of their meetings to evaluate their work. He was impressed with their determination. The organisation gave them a grant (or donation) they did not need to repay.

Bank loans

The government also tried to encourage income-earning activities for women. Through a programme administered by the

national Co-operative Department, the women were able to obtain a loan from the Co-operative Bank. The members knew, however, that they had to repay this loan over a period of time and that they had to pay interest on it to the bank. In order to repay the loan the co-operative had to earn a net surplus.

Member liabilities

When Rainbow was formed, some women were worried about the money they had put into it. What would happen if the co-operative failed? The members knew that they must share the risks of the co-operative as well as its benefits. They were in it together. They knew they could lose everything they had already invested in the co-operative: time, effort, entry fee and share capital. But what about further obligations - were they responsible for Rainbow's debts if it failed? What happened if there was no more Rainbow?

"What about the loan the bank has given us? Will we have to pay that back out of our own pockets as well?" some members asked.

"No," explained Mary. She knew the law. "If Rainbow should go out of business, the bank has to recover what it can from the co-operative, but not from the individual members. Our liability, or what we are responsible for, is limited to the share capital we have invested in the society. We will lose that but nothing more."

DISCUSS

1. If you produce and sell any crafts at present, what is your profit? (List your costs and compare them with your selling price.)
2. If you were to start a co-operative, what kind of costs would you have to pay to operate it (rent for a store, payment for staff, travel, insurance, licence fees, packing material, stationery, interest on loans, etc.)? (List all possible costs.)
3. What happens to a co-operative that cannot earn a net surplus? What can the members do to make sure that their co-operative will not go bankrupt? (If it **does, they will lose** their share capital.)
4. You will, of course, need to draw up a detailed plan before deciding how much money is required to start your co-operative. But for now, make a rough estimate of how much you would need to begin a marketing or supply service.
5. How could you raise the money you need? How much can members contribute? What other possibilities are there?

Notes for the study leader

1. *The purpose here is not to make a realistic feasibility study, but to help group members understand the costs involved in running a co-operative and the need for both margin and commission.*
2. *It is usually easier to grasp mathematical examples of this type if you use the figures for a single item only, for instance one basket, one mat or one chicken.*

.....

ORGANISATION

Members of any co-operative must decide how to organise the tasks of labour and management.

Labour

In a small marketing and supply co-operative like Rainbow, the members provide themselves with a service that helps them obtain both raw material and markets for their finished products at fair prices. The actual work involved in making the handicraft is up to the individual. Each member takes home the raw material bought through the co-operative and weaves it into baskets - whenever she has time and wherever she finds convenient. (The handicraft, of course, must be well made and delivered to the co-operative at the appropriate time.)

Not all co-operatives work this way. There are also "workers'" or "industrial" co-operatives. These are set up not to provide a service but rather employment for members. For example, the Dressmakers Co-operative has a little factory where twelve dressmakers come to work full-time daily. They are employed (but by their own co-operative) and receive wages like other workers. In addition, they share the profit made on the dress sales, because they are both workers and owners of the co-operative.

Management

The members of Rainbow Co-operative discovered that they liked to discuss and analyse everything in detail before making decisions. They felt that this, after all, was democratic - they all had a say in the co-operative. But as they began to see the number of responsibilities involved in actually operating the society, they also recognized that they could not possibly discuss everything together. It simply took too much of their time.

Therefore, the group of women elected to be on the committee had to do more of the management work for the co-operative. These women shared important duties; one kept track of the money and maintained the books, others ordered, received and checked supplies, still others ran the store.

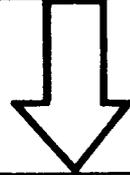


This worked very well at first. But the co-operative expanded. Soon there was too much work to be done by the committee members in their spare time. Someone was needed who could spend more time looking after the day-to-day business. So Rainbow hired a secretary (or manager) to work part-time in the society.

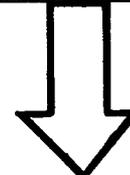
The committee members continued to help as before. Rainbow now had the same organisation as most other co-operatives, described on the following page.

The structure of a co-operative

A co-operative is owned by its members. They decide its goals and rules and they have final authority. But for practical reasons, all members cannot meet every time a decision has to be taken.



Therefore, a committee is appointed to take the responsibility for management. The committee plans and supervises the activities and business affairs of the co-operative.



To carry out the day-to-day work of management in accordance with rules and plans, the committee may appoint a secretary/manager and other necessary staff.



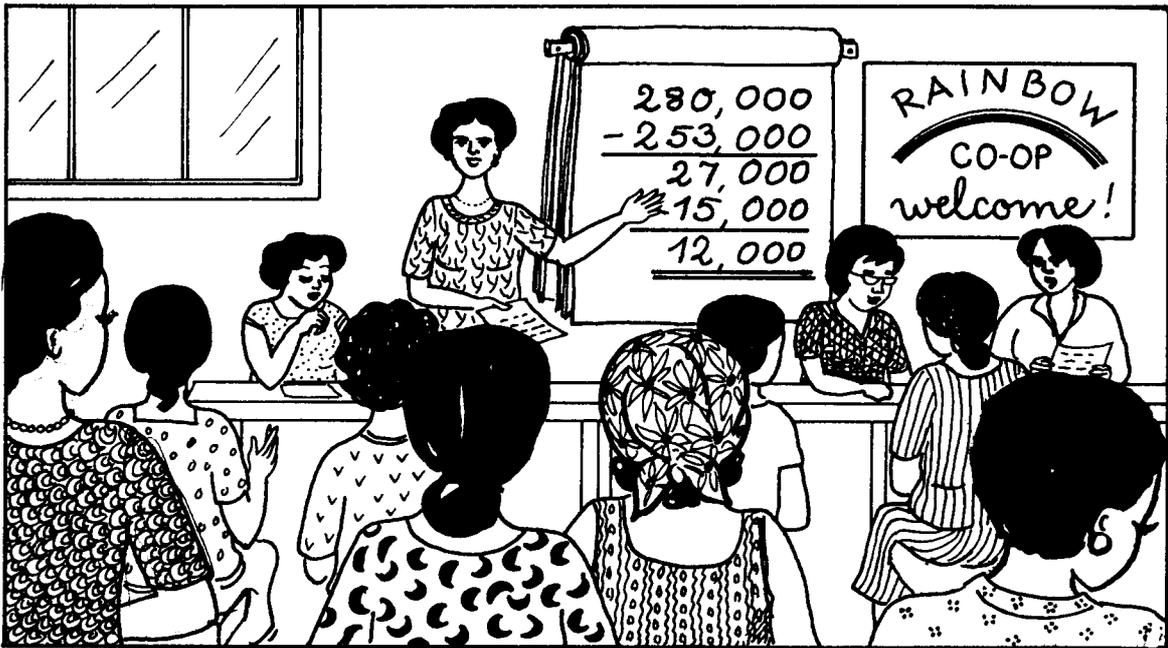
Everyone in a co-operative must understand how these three groups work together. To demonstrate the work and the responsibilities of the members, the committee and the manager, we can again use the example of Rainbow Co-operative.

The members

The co-operative belongs to its members. Therefore, they all have equal say in its control. Because it is impossible for all members to meet for every decision, they elect a committee to make routine decisions on their behalf. But certain important matters must still be decided directly by the members. This is done in general meetings. The most important of these is the Annual General Meeting (AGM).

The main purpose of the AGM is:

- to review and discuss what happened during the past business year;
- to decide what should be done with any surplus;
- to discuss and plan the coming business year;
- to elect a committee for the coming year.



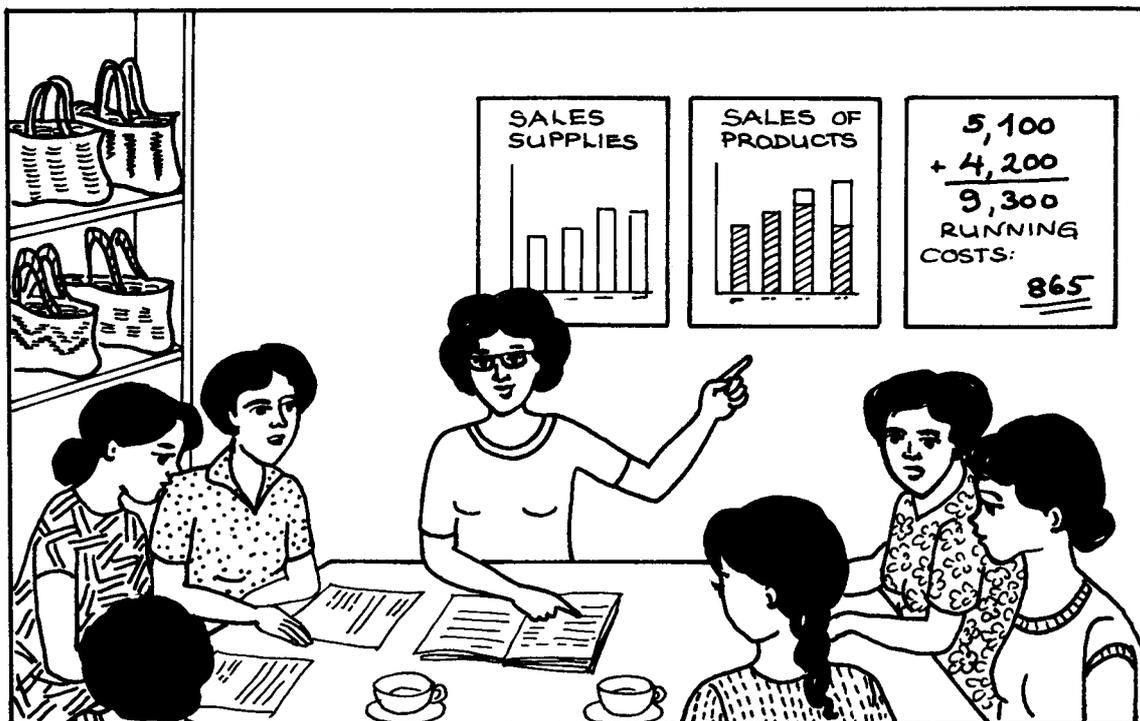
When the members of any co-operative take a decision, they vote. Each member has one vote, and only one. All are equal. This way of democratic voting and decision-making is one of the co-operative principles making co-operatives different from other types of business organisations. (See page 44.)

In the beginning, Rainbow Co-operative held general meetings frequently. It took them many meetings to work out and agree on the objectives and the rules of their society (the by-laws). Now only a few general meetings are held every year, but members also attend the informational meetings called by the committee.

The committee

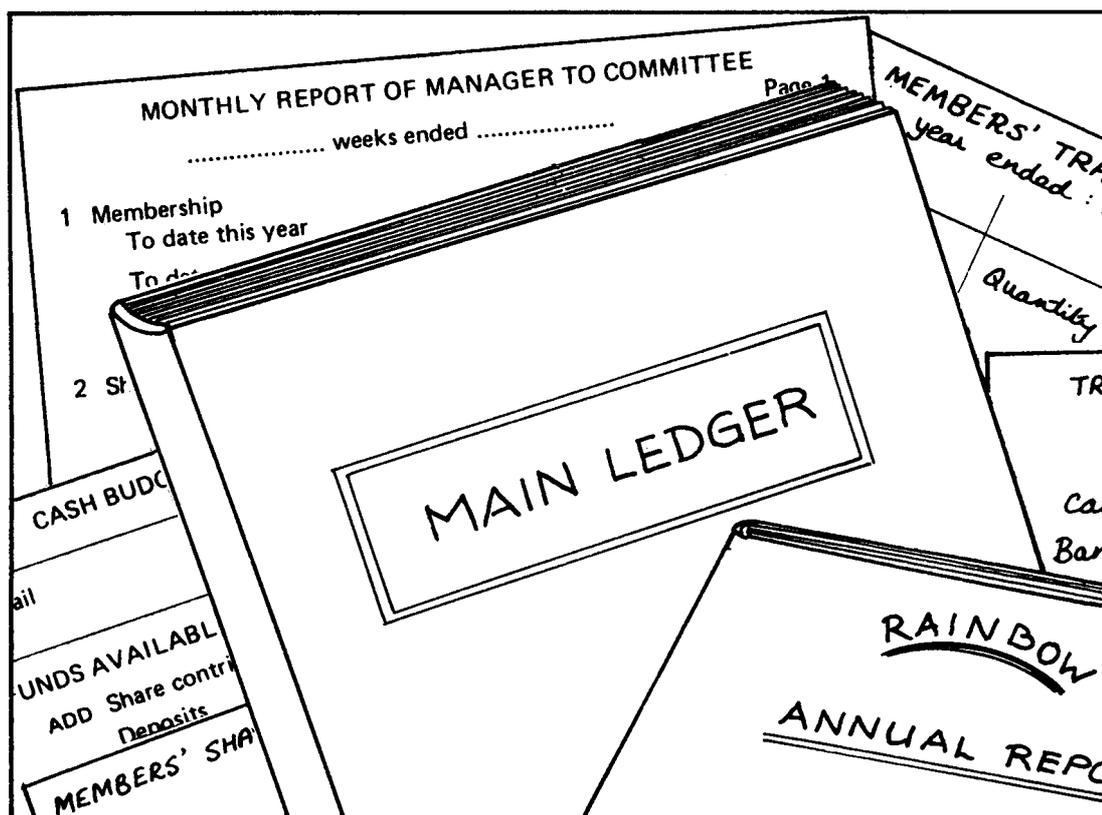
In the beginning, all management work was done by the committee members. They had been elected by all the members to plan and supervise the business of the society. Later, there was so much work for the committee that it was decided to appoint a manager to look after the day-to-day work. The committee then had more time to concentrate on other important tasks.

The committee usually meets once or twice a month, sometimes more. The manager is also present. We will now describe the most important matters the committee deals with in these meetings.



- Financial_management: The committee works out plans for expenditures and income. Every month the manager presents a report on the sales and costs. The committee reviews it. Are the costs higher or lower than planned? Can the society sell the baskets at a higher price and perhaps pay the members more? Will there be enough cash in the society for the coming months?

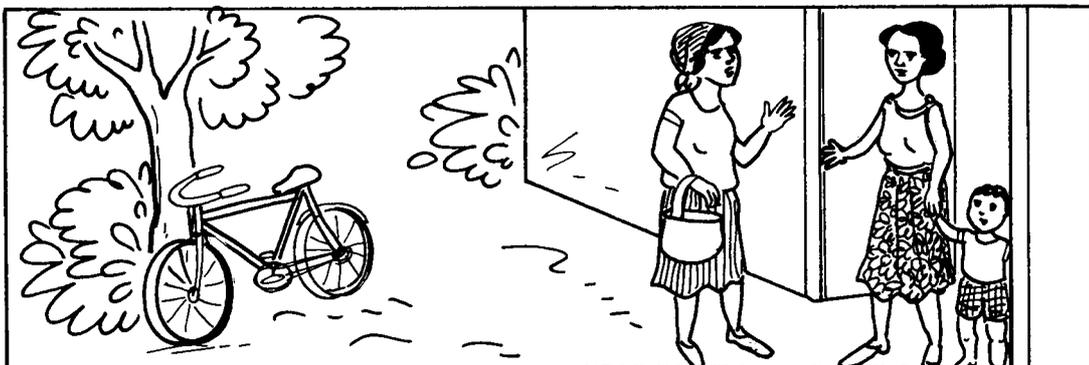
The committee members know that they are responsible for the society's finances. Without the records carefully kept by Manager Mary, it is not possible for them to discuss the business results and to plan suitable action. They, in turn, have to present properly prepared reports and accounts at the end of each year to the members. These must present an accurate picture of the financial situation of the co-operative. They are checked by the government's Department for Co-operatives. The committee members ask a co-operative adviser for assistance in the preparation of these accounts, as they do not know how to do it themselves.



- **Commercial - policies:** The committee decides what the co-operative should produce (special types and sizes of baskets, for example). It sets quality control guidelines, deciding what products are of sufficient quality to be accepted for sale by the co-operative. The committee also identifies and selects good suppliers of raw material and good buyers for their products.



- **Membership-matters:** The committee deals with all applications for membership. In case of problems or complaints, the committee may talk with individual members, explaining the rules of the society. Difficulties may arise over failure to pay shares or to repay loans, for instance, or over quality of workmanship. The committee also organises educational and informational meetings for the members, with the help of the manager. (These concern such topics as handicraft techniques or how co-operatives work.)



The manager

The members set the objectives and the rules, the committee draws up plans for the work, and the manager sees to it that the work is done.

At Rainbow, it was Mary who got the job as the first manager. She lived alone and could easily organise her time to spend certain hours at the co-operative. But more important were her skill in organising and planning things, her dedication, her willingness to try new things, and her ability to get along well with others. These made her the ideal choice for manager.



- Mary saw to it that supplies were ordered, delivered, paid for and properly stored for pick-up by members.
- She made sure that members dropped off their finished products, in some cases going to collect them if the women could not make it to the co-operative.
- Together with some committee members she checked the quality of the baskets. Work below a certain standard was rejected.
- Mary dealt directly with the buyers and was responsible for seeing that the society's products were ready as promised. She made sure that payment was received.
- She had to keep records of all these transactions, informing the committee monthly about sales and purchases.

Communication

We have seen that the members set the objectives and the rules for a co-operative, the committee draws up the plans and oversees the finances, and the manager sees to it that the work is done as planned.

This kind of structure and distribution of responsibilities is suitable for most co-operatives. It can be illustrated like this:



But structure is not enough. If the organisation is to function, there must be contact between the blocks. Let us put in arrows to show the links.

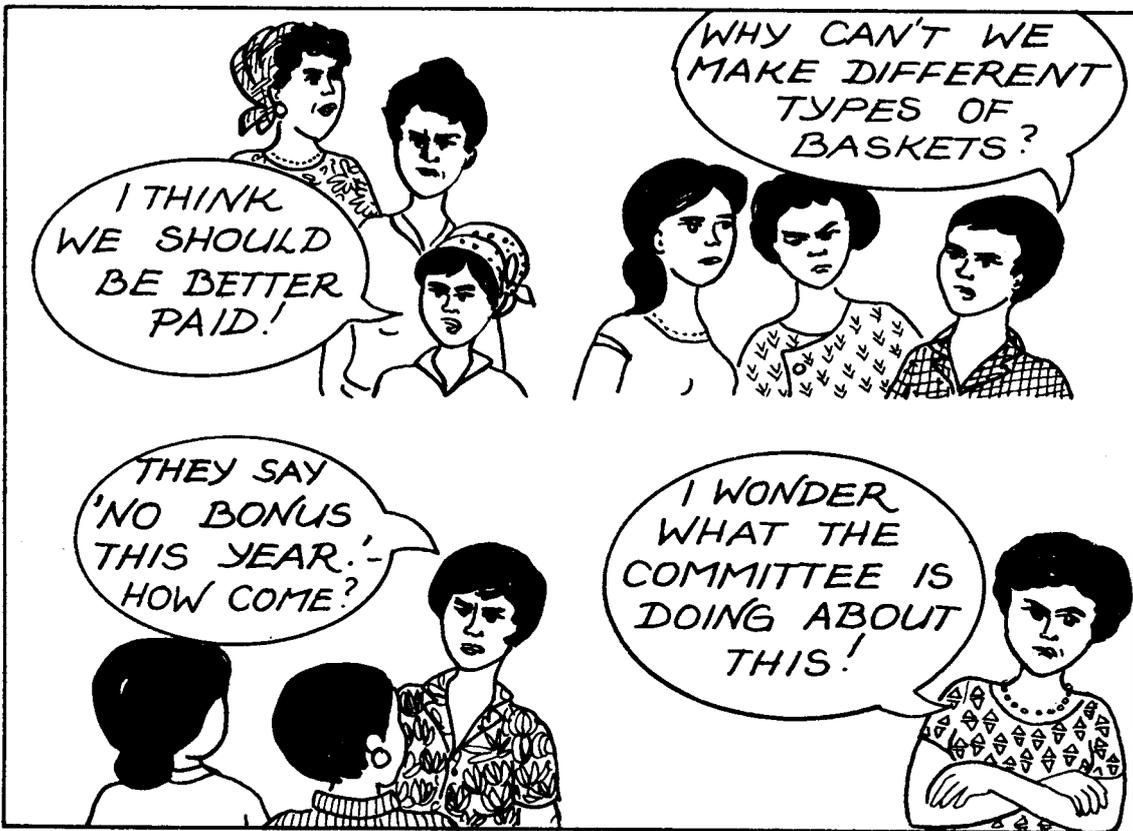


The white arrows indicate that decisions taken by the members and the committee are passed on to the manager to be implemented.

The black arrows indicate that the manager keeps the committee informed and that it reports to the members. Communication must go both directions.

We have seen that there was close contact between members, committee and manager in Rainbow. Everyone knew her rights and responsibilities; members exercised their power appropriately in the general meetings, the committee knew its responsibilities, and the manager had her tasks. Information and communication among all of them was very good.

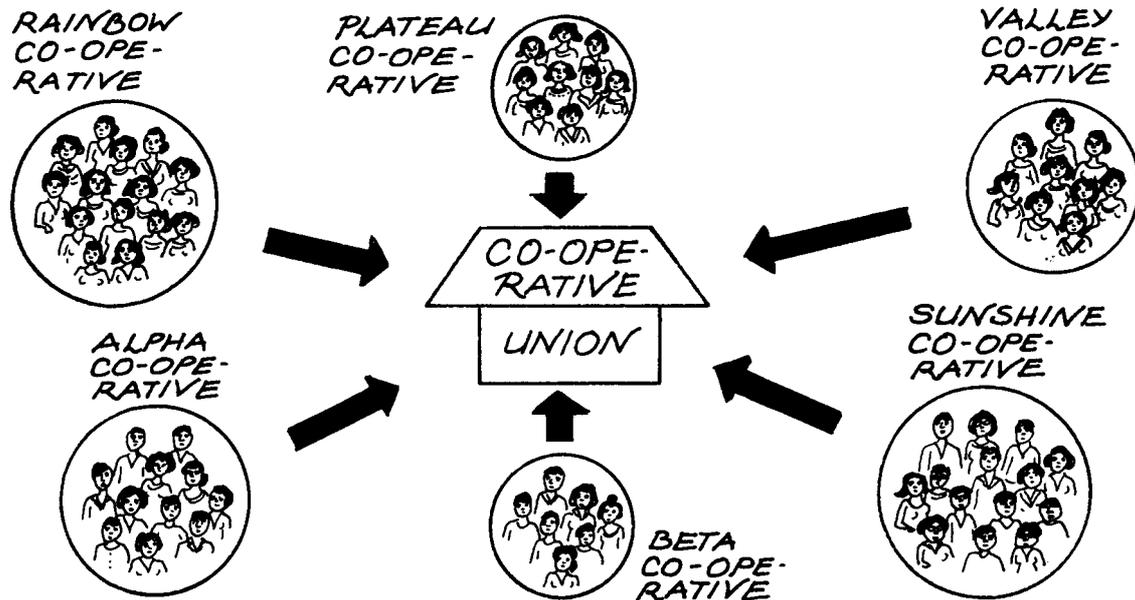
Not all co-operatives are so lucky. Different ideas and lack of understanding about who does what can lead to arguments, to interference by committee members with the manager, or to too much independent action by the manager herself. Members can be left out of important decisions if the committee and the manager forget to consult them.



Rumors, distrust and bad feeling can quickly spread among the members if every effort is not made to keep them informed. Worse yet, they can lose interest in the whole idea and become apathetic. Member apathy and discontent are major reasons for co-operative failure.

The co-operative movement

One of the co-operative principles says that all co-operative societies should help each other. Very often they unite to form unions and federations. In that way they can organise education and training and even business activities together.



The women in Rainbow Handicrafts sought advice from the office of the Co-operative Union in their region when they started their society. They continue to make use of the services provided by the Union such as bookkeeping and accounting.

The role of the government

Anyone **intending to** start a business must obtain a licence from the authorities. Virtually all countries have some sort of regulations on business activities to protect the consumer.

Like other businesses, co-operatives operate under the law. Most governments have a special department or ministry and specific laws for co-operatives. The department checks on

the operations of all co-operatives and provides them assistance in various ways.

Let us look at the contacts between Rainbow and its Co-operative Department.

- The founders of Rainbow did not know much about co-operatives when they began. They went to see a co-operative officer (an adviser) in the Co-operative Department for help.

Whenever the committee or the manager of Rainbow needs assistance or advice, they can approach this officer.

- When the Rainbow women were convinced that they would succeed as a co-operative, they recruited members, elected a committee and set the by-laws for their co-operative. Then they applied for registration of their society to the Co-operative Department. The registrar checked to be sure that their by-laws were in accordance with co-operative principles and regulations and then registered the society.
- Every year, the committee of Rainbow Handicraft prepares its final accounts, with the assistance of the co-operative adviser. The finances are checked by an auditor from the Co-operative Department. The auditor's report is presented to the members at the AGM.

The relationship between the government adviser and the management of Rainbow is very good. Both the committee and the general members feel that the co-operative really belongs to them and that the government will not interfere as long as they follow national guidelines. On the other hand, they are grateful for occasional assistance from the adviser concerning accounting, audit and other complicated administrative matters.

CASES TO LEARN FROM

We have now considered the basic economics and the organisation of a co-operative. Understanding of these is essential for every co-operative member.

It happens on occasion that a co-operative starts out well only to collapse later. The result is not only great disappointment but loss of faith in the co-operative ideal.

Yet, in such cases, the reason for failure is often quite simply that the members did not know enough about running a co-operative when they began. To avoid that mistake, let us once again review some basic co-operative concepts, principles and problems. This time we will use short stories; after each, suggest reasons for what happened and actions the co-operatives might have taken to avoid the problems.

Lakeside Handicraft Society

Sales had been going down for quite some time at Lakeside Handicrafts. The manager met with the committee members to discuss the situation.

"We are just not able to sell our members' products the way we used to. The buyers complain about competition from modern articles made of metal and plastic, and say that they can only sell our old-fashioned goods at very low prices."

The society's store room was now full of handicrafts. The manager was really worried, because the members delivered regularly as usual. So far, she had paid them cash on delivery. The manager thought she must stop this now, or she would soon run out of cash. She suggested that members be paid for their articles only after the society had managed to sell them.

Notes for the study leader

- *Discussion on this case should pinpoint the reason for the present problems: the society apparently started without a proper study of the marketing possibilities. If the society cannot find new markets or make new products, it can hardly continue.*

Wagram Handicrafts

The government was anxious to preserve the traditional weaving craft of the Wagram rural area. This was also the aim of several foreign aid projects. The few women who still carried on this craft were encouraged and assisted to form a co-operative. Raw material was obtained for them. Their goods were sold to visiting tourists and foreign marketing organisations.

None of the women was able to do bookkeeping, so a volunteer from a missionary station carried out most of the management. The society was housed in an attractive building at the government's expense. Visiting delegations were frequently brought to see it. Whenever any problems arose there always seemed to be some help at hand. If money ran out one or another agency would lend it. Raw materials were always provided and were not always charged to the society. Finished goods, regardless of quality, were always sold to some well-wisher.

After a while, however, such assistance was withdrawn. The **government seemed to lose interest**. The members had no idea how to run the society themselves and it soon collapsed.

Notes for the study Leader

- *This co-operative was smothered with too much help. The members never got an opportunity to learn, as the advisers and consultants did all the management work. The discussion about this case should also bring out the importance of self-reliance. If the members do not really need and want a co-operative, they will not contribute sufficiently to its management and development. Sooner or later it will cease to exist.*



Miners' Meals Co-operative

The mining industry in a particular region developed very rapidly. The mining company organised catering services for the workers; one meal was served each shift. Most of the food stuff was supplied from large firms in the city.

Some enterprising women in the area saw the possibility of earning cash by selling farm produce like vegetables, chickens and eggs to the canteen at the mine. However, the canteen manager did not want to buy small quantities from individual producers. So the women formed a co-operative group and sold their products in bulk.

The women were surprised to see that they could earn so much money. The canteen even offered them contracts for regular deliveries of chickens and eggs.

Business was booming. Soon there was so much to do every day receiving produce from the members that the secretary/cashier had problems coping with all the record-keeping, organisation of packing, transport and so on. Then the members agreed to be paid only once a month which made the work easier.

In the beginning everyone was happy. But after some time members began complaining about the late payment and the delivery procedures in general. They had to wait a long time at the co-operative just to hand over their produce. Sometimes there was great confusion over payment. The secretary could not always find all her notes. Some members insisted that they were not paid for everything they had delivered. Even the canteen manager started to complain. He said he had to ask for the bills and when he checked them they did not always tally with his own records. Even worse for him, it happened on a few occasions that the co-operative failed to deliver chickens as agreed in the contract. He had a lot of trouble quickly finding something else to serve all his canteen customers on those days.

In the meantime, a private trader had appeared on the scene. The co-operative group had opened his eyes to a business opportunity. He now went around to members' houses twice a week and offered to buy on the spot what they had, paying cash. Although the women thought he paid much less than the co-operative, many of them sold to him to avoid all its problems. This was the beginning of the end for the society.

Notes for the study leader

- *This case shows the importance of effective planning and management. A co-operative will never succeed if competitors can offer better services for members and customers. One of the most significant responsibilities of the members in a co-operative is, therefore, their choice of committee members. These, in turn, must understand the need for a qualified business manager able to plan, organise and keep the books.*

The Dressmakers' Group

A number of women in Old Town were quite well known for their dressmaking skills. One of them, Mary, took the initiative one day. She asked all the other women who had sewing machines if they were interested in making school uniforms, which could be sold through one of the clothing shops in town. Their response was positive; the women agreed to join what Mary called a seamstresses' co-operative.

Mary agreed with the school headmasters on the design of the uniforms and with the shop manager on prices. She could not get the cloth required on credit, but some of the seamstresses agreed to advance the money. She also got some private loans from friends so she could purchase material enough for some 100 uniforms. The cloth was distributed among the women and production started. Each woman made, in her home, as many uniforms as her time allowed. Some made only a few, others worked all night. Mary then collected the uniforms, delivered them to the shop, and received payment. She could now pay back the loans.

Mary organised a meeting to celebrate their success and to divide the earnings. Unfortunately, some of the women were confused and disappointed at this meeting, because of proposals Mary made. She said that she had to give extra money to those who had contributed money to buy material, in addition to paying them back for the cloth. "Without them we would not have been able to do any business at all," she said. But some of the women who had made many uniforms said the same thing: "Without our production there would have been no business either." Other women suggested that Mary should be paid extra because it was her initiative and effort that made it all possible.

"We have all done a good job," said Mary. "I think we will receive more orders for uniforms every year now, and maybe we can also make nurses' dresses and such things. I suggest that we keep some of the earnings to buy material for future orders."

Many women were frustrated and did not know what to say. In the end they left it to Mary to decide, trusting that she would work honestly for the benefit of them all.

But one woman said after the meeting, "If we really want to form a co-operative I think we must sort out a few things, - I know there are some rules"

Notes for the study leader

- Let the study group identify the co-operative rules (principles) referred to above. They are:
 - a) the principle about limited interest on capital (see page 21);

- b) *the principle about democratic control: one member - one vote (page 27).*

The case can provide the occasion for discussion of many other aspects of co-operatives, for instance the principles on distribution of surplus, on continuing education (see page 44), and the need for information and education on co-operative matters before a co-operative is formed. (This is actually the purpose of this book-Zet/study course.)

The Highland Matweavers

Two weeks ago the Highland Matweavers Co-operative officially opened its beautiful new showroom in the city. The room was full of carpets. The tourists lost no time in buying such nice handicraft. After a few days the shop was empty. It was fantastic, the members thought; the future was bright. Thanks to the new showroom they would be able to sell all their carpets to the tourists.

But there was one problem - after two weeks the showroom was still empty; no carpets were on display.

The secretary/manager was worried. When she had finally obtained the committee's approval to rent the room, she had used all the society's money to make the room ready for the opening. She had forgotten all about the need for capital in the future, convinced that the showroom would solve all kinds of problems.

The showroom did solve the marketing problem, it is true, but now she faced other problems. Without cash - no raw material. Without raw material - no production. Without production - no sales. Without sales - no income for the members ... and no job for herself. What would now happen to the co-operative?

Notes for the study leader

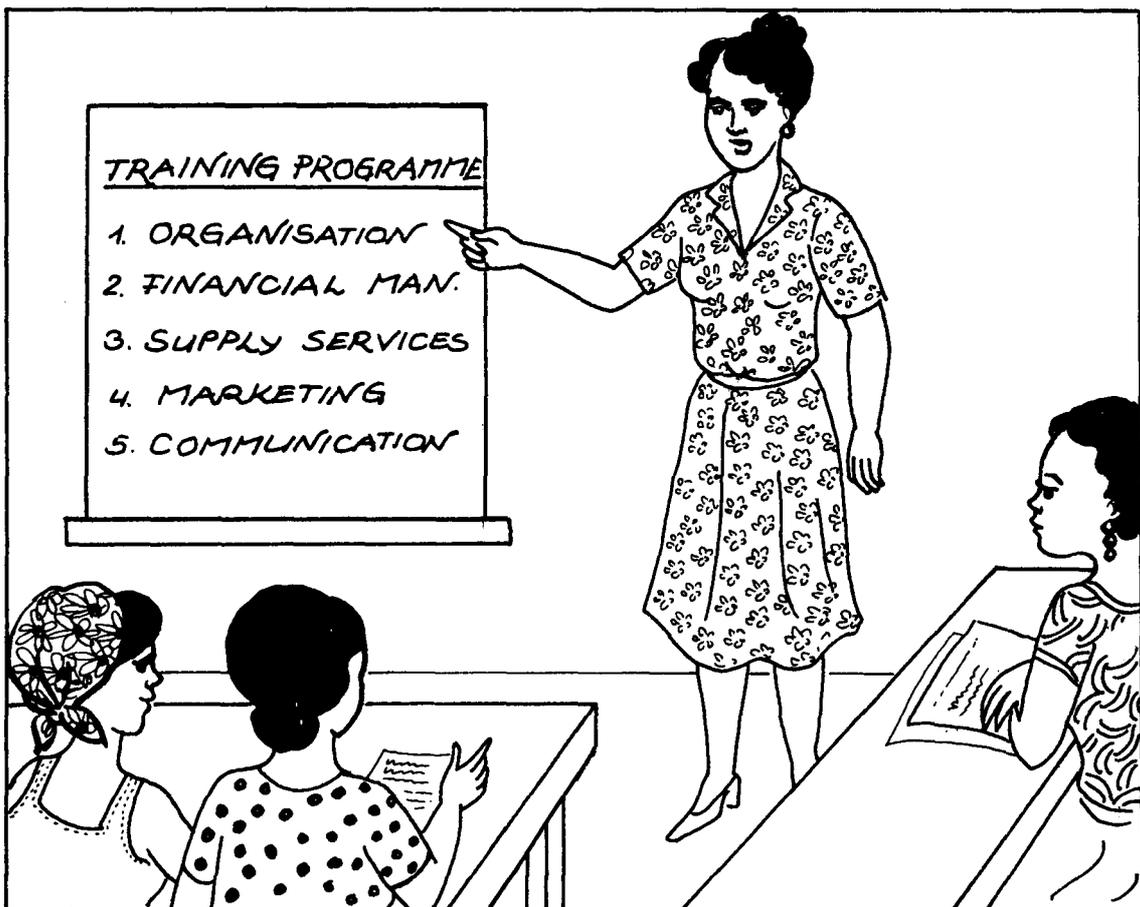
- *Discuss the need for foresight in fundamental financial management matters. Do the members know enough about this, or is it necessary to ask for advice or to employ a specialist/manager?*

GOING AHEAD

You now have some idea how a supply and marketing co-operative works. The more you learn about the economics and the organisation involved, the better your chances of success if you start your own co-operative.

Remember, leaders of co-operatives have a tremendous responsibility. If you accept such leadership, it means that you also accept the need to spend a lot of time and effort on the society. You may need further study as well. Especially in the beginning, before a co-operative is registered, its leaders have a heavy workload.

MATCOM has published another booklet, called "A Handicraft Co-operative - Management". That booklet is intended for the further training of committee members and managers.



..... DISCUSS

1. Below is a list of some tasks for those who decide to go ahead and form a co-operative society. Discuss the list, adding other tasks that might be necessary. Decide the sequence of these tasks. **Discuss who should do what** and where you will need assistance and advice from specialists.

Tasks:

- Find out the exact procedures for registration of a co-operative.
- Find out what assistance you can get from co-operative organisations and government offices.
- Investigate the extent of interest among the women in your area.
- Arrange informational meetings.
- Elect a "care-taker committee" to manage the initial work.
- Make a thorough study of the feasibility of the proposed co-operative - will it really work? Make a budget for the first year of operation, suggesting sources of finance.
- Recruit members.
- Formulate objectives and rules (by-laws) for the co-operative; have them discussed and approved in a meeting with all members.
- In a general meeting, elect a committee.
- Collect share capital from members.
- Raise more funds, as needed.
- Apply for registration of your co-operative.

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T H E C O - O P E R A T I V E P R I N C I P L E S

1. *Open and Voluntary Membership*

Membership of a co-operative society should be voluntary and available without artificial restriction or any social, political, racial or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities of membership.

2. *Democratic Member Control*

Co-operative societies are democratic organisations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. In other than primary societies the administration should be conducted on a democratic basis in a suitable form.

3. *Limited Interest on Capital*

Share capital should only receive a strictly limited rate of interest, if any.

4. *Distribution of Surplus*

The economic results arising out of the operations of the society belong to the members of that society and should be distributed in such a manner as would avoid one member gaining at the expense of others.

This may be done by decision of the members as follows-

- (a) By provision for development of the business of the Co-operative;
- (b) By provision of common services; or
- (c) By distribution among the members in proportion to their transactions with the Society.

5. *Education*

All co-operative societies should make provision for the education of their members, officers, and employees and of the general public, in the principles and techniques of Co-operation, both economic and democratic.

6. *Co-operation among Co-operatives*

All co-operative organisations, in order to best serve the interests of their members and their communities should actively co-operate in every practical way with other co-operatives at local, national and international levels.

A D D I T I O N A L T R A I N I N G M A T E R I A L

You may want to learn more about the management of a co-operative. If you are willing to serve on the committee and take responsibility for the operations of a co-operative, there are many matters you need to study further.

MATCOM has published self-study booklets for use in consumer, agricultural and workers' co-operatives. The booklets deal with common tasks, such as planning, ordering and selling goods, controlling cash and stock, and so on. Even if your co-operative is of a different type, the booklets may be useful for you.

MATCOM self-study booklets for staff, managers and committee members -

for consumer co-operatives:

	<u>ISBN</u>
BASIC ECONOMICS OF A CONSUMER CO-OPERATIVE	92-2-105729-1
PLANNING AND CONTROLLING THE BUSINESS	92-2-102222-6
CASH AND STOCK MANAGEMENT	92-2-105046-7
PRICING	92-2-103028-8
BUILDINGS AND EQUIPMENT FOR SMALL SHOPS	92-2-102177-7
BASIC RULES FOR THE DISPLAY OF GOODS	92-2-102067-3
THE DISPLAY OF GOODS IN SELF-SERVICE SHOPS	92-2-102081-9
EASY LETTERING FOR SIGNS AND POSTERS	92-2-103330-9
THE STOCK RANGE	92-2-103089-X
ORDERING GOODS	92-2-103088-1
RECEIPT OF GOODS	92-2-102437-7
SHOP HYGIENE	92-2-103692-8
FOOD SPOILAGE AND PRESERVATION	92-2-103693-6
WEIGHING AND PREPACKING	92-2-105730-5
PRICE-MARKING	92-2-102632-9
SALESMANSHIP	92-2-102223-4
SHOPLIFTING	92-2-102481-4
HANDLING OF CASH	92-2-102361-3
CASH CONTROL WITHOUT A CASH REGISTER	92-2-102435-0
CASH CONTROL USING A CASH REGISTER	92-1-102436-9
LEAKAGE	92-2-102049-5
STOCK CONTROL RECORDS	92-2-102774-0
STOCK-TAKING	92-2-105731-3
WORK ORGANISATION AND STAFF MANAGEMENT	92-2-103268-X
TRAINER'S NOTES - A booklet comprising notes for the instructor on the use of the above	92-2-105151-X

for agricultural co-operatives :

ISBN

BASIC ECONOMICS OF AN AGRICULTURAL CO-OPERATIVE	92-2-103699-5
THE BUDGET	92-2-103698-7
SUPPLY SERVICES	92-2-105021-1
CROP COLLECTION	92-2-105161-7
PLANNING	92-2-105215-X
 NOTES FOR THE FIELD TRAINER - a booklet providing guidelines on how to plan and carry out field training, based on the above material.	 92-2-105587-6

for workers' co-operatives :

A WORKERS' CO-OPERATIVE - Organisation	92-2-105265-6
A WORKERS' CO-OPERATIVE - Basic Economics	92-2-105264-8

For inquiries about these and other MATCOM training material
and services, please write to:

The ILO-MATCOM Project
c/o COOP Branch
International Labour Office
CH-1211 GENEVA 22
Switzerland

NOTES FOR THE STUDY LEADER

The following are some guidelines for those who want to organise a study course based on the contents of this booklet.

- Study the booklet thoroughly yourself; you must be completely familiar with its contents.
- Adapt and modify the contents of the booklet to include local names and conditions typical of your country. You may want to convert the main example of the handicraft co-operative into another co-operative activity. Use realistic examples. For instance, substitute true stories from your own country for the short stories on pages 37 - 41.
- Arrange a study programme; decide how many meetings you will have and the topics for each meeting. Invite participants.
- In the meetings, go through each chapter with the participants. Present the contents in your own words. You should not read from the book; it is much easier for participants to understand if you talk freely.
- Be flexible; do not follow the material slavishly. Be prepared to change the approach, depending on what the trainees themselves suggest.
- Make effective use of visual aids. Copy some of the illustrations from the booklet on large sheets of paper and use them to support your presentation.
- Present the discussion questions at relevant times. Take good time for the discussions. Whenever suitable, organise discussions in smaller groups, and let the groups report their conclusions afterwards.
- Avoid talking too much yourself; participants' discussion should take up much of the total time. Ask, listen and guide rather than talk. Important points can be elicited from participants through skilful questioning rather than your telling them everything.
- Call on the silent and, if necessary, silence those who talk too much.
- Be sure that everyone understands what is going on; do not allow discussion to be taken over by a minority who comprehend when the majority do not.

NOTE: It is preferable that necessary adaptation/translation of this booklet be done by a co-operative apex organisation or department. Copies could then be economically reproduced and distributed to all participants.