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COP 211



Cooperative Economics I

Module 1

COP 211 (Cooperative Economics I)

Module I

Course Developer/Writer

Mr. Obaka Abel Inabo, University of Jos

Course Editor

Dr. Dimis Mai-Lafia, University of Jos

Course Coordinator

Mrs. Caroline Aturu-Aghedo, National Open University of Nigeria

Programme Leader

Dr. O J. Onwe, National Open University of Nigeria

Credits of cover-photo: Henry Ude, National Open University of Nigeria

National Open University of Nigeria - University Village, Plot 91, Cadastral Zone, Nnamdi Azikiwe Expressway, Jabi, Abuja-Nigeria.



www.nou.edu.ngcentralinfo@nou.edu.ng
ouerunit@nou.edu.ng OERrepository

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Unit I The Nature of Cooperatives

1.0 Introduction

This is the first unit of this course. Cooperative organizations are gaining ground all over the world. It is an alternative system of production which lays emphasis on profit maximization. This unit discusses the nature of cooperatives with emphasis on the origin and other relevant areas.

2.0 Objectives

At the end of this unit, you should be able to:

- describe the nature of cooperative
- trace the origin and acts of mutual assistance
- explain extension of mutual assistance to formal cooperative
- describe cooperative as a non-profit making organization
- explain the characteristics of cooperative.

3.0 Main Content

3.1 Origin and Acts of Mutual Assistance

Cooperative Economics is about people co-operating with each other to provide for the basics of life. Cooperative, here, means that people work together to develop self-reliant, locally-based and community controlled economics within a given bio-region.

Consequently, cooperative activities take place when individuals pool their resources together (which are often meager) in an effort to obtain what is needed by all, which, otherwise, cannot be obtained with the use of an individual's resources, talents, time, information or effort. This practice has existed since the origin of humanity; cooperative is, therefore, a customary and an instinctive solidarity. The first cooperative act of man can be traced to when the first human family started gathering food, even before the agricultural age.

We have examples of mutual aid and assistance in our traditional societies. You have probably noticed some instances where helps were rendered to others on such occasions like celebration of births, marriage ceremonies, funeral ceremonies, and so on. There existed customary arrangements within these traditional societies for securing assistance from neighbours during these events.

The more advanced forms of traditional cooperative are demonstrated in savings and lending, joint action, joint possession of land and its resources. Our people did not leave life's risks and emergencies to chances. They developed various patterns of mutual assistance, reduced them to custom, and handed them down as tradition, norm and as a legacy from the past through formal and informal education.

These practices were enforced with the authority of the elders. Those who deviated from these traditional mutual activities were ostracized from the community. These traditions of mutual assistance are common in various communities in Nigeria. These societies are usually called self-help organization. We shall come across them in subsequent units.

Self-Assessment Exercise

Look around you and mention, at least, five incidents where a form of traditional assistance was rendered to people.

3.2 Extension of Mutual/Traditional Assistance to Formal Cooperatives

Modern cooperatives have their roots in traditional forms of cooperative. The cooperative actions are based on voluntary agreements by the individual actions. This voluntarism is the main tenet of modern acts of co-operative. In general, cooperative can be in the form of two or more persons working together to achieve one or more goals, which can either be permanent or ad-hoc, or it can even be a one-time act. In this regard, the rules as well as the modes of such actions of working together will be different from one instance to another.

Furthermore, the nature of cooperative, from a limited perspective, is also often used to mean the activities of a specific form of organization, that is, the cooperative. The word cooperative can also be used as an adjective. From the point of view of looking at co-operation as specific formal organization, a study of cooperative is a study of the institution and its activities.

3.3 Cooperative as Non-profit Making Organization

You should note that the underlying force behind cooperative is not for making profit. That is, the primary objective for the formation of a cooperative society is not for profits unlike the private enterprises. We all know that entrepreneurs establish businesses for the sole purpose of making profit. On the other hand, cooperatives are business organization with the motive of obtaining goods and services required by members through joint effort. Consequently, cooperative members combine in themselves the functions of owners and users.

You will notice that in cooperative activities, the buyer becomes the seller, the borrower becomes the lender, and the tenant becomes the landlord and so on. The owner-user nature of cooperative will be explained further in the course of this study. Also, because the patron is the owner, you will agree with me that he must be the controller of the cooperative. This is necessary so as to ensure the quality of service that is needed and to avoid all forms of exploitation. That is why there is broad base control or democratic control by members (Patrons).

Again, surpluses are shared by members in proportion to the volume of business each member does with the cooperative society. Surpluses are never shared in proportion to shareholding. This is unlike the private organization where the net profit or net result goes to the investor(s) in proportion to the amount invested into the business.

3.4 Characteristics of Cooperative

In the preceding sections, 3.1-3, we tried to look at the nature of cooperative. In the process of doing that, we mentioned some characteristics of formal co-operation, such as the non-profit nature of cooperative. We are going to look further by highlighting what cooperatives are not, so as to bring out the essential feature of cooperatives.

Self- Assessment Exercise

From the foregoing discussion, discuss the nature of co-operation.

3.4.1 What Cooperative is Not

The simplest way to highlight the features of cooperative is to compare cooperatives with other organization that look like cooperatives, but which, in reality, are not cooperatives. Let us look at some examples.

- Cooperatives are not trade unions.
- Cooperatives are not political parties.
- Cooperatives are not parastatals.
- Cooperatives are not Lion Clubs or Johnson's Brigade or RedCross or Rotary club- among others, because these are humanitarian or philanthropic organization.
- Cooperatives are not private companies or public limited companies that are quoted on the Nigerian Stock Exchange (NSE), because these are profit –making organization.

We now see clearly that the above mentioned organizations are not cooperatives because they do not seem to possess the unique characteristics of cooperatives. A cooperative is an association of people for mutual aid; it is run like a business entity with defined business policies, financed by members, in accordance with established rules and regulations. We shall examine the definition of cooperative much later. The next section treats cooperative federalism.

3.5 Cooperative Federalism versus Cooperative Individualism

A major historical debate in cooperative economics has been between cooperative federalism and cooperative individualism. For instance, in a typical village or a community, the residents would be both the producers and consumers of its products. However, for a cooperative, the producers and consumers of its products become two different groups of people, and thus, there are two different sets of people who can be defined as its “users”. As a result, we can define two different modes of cooperative organization, namely, consumers' and producers' cooperatives.

In the case of consumers' cooperative, the consumers of a cooperative's goods and services are defined as users (for example, food cooperatives credit unions, etc.); while producer cooperative is one in which the producers of a cooperative's goods and services are defined as its users (for example, agricultural producer cooperatives, etc.). This in turn led to a

debate between those who support consumers' cooperative (known as cooperative federalists) and those who favour producers' cooperatives (pejoratively labeled- individualist cooperatives, by the federalists)

Self-Assessment Exercise

Mention other organization you are familiar with, which look like cooperatives, but are not.

4.0 Conclusion

In this unit, you have learnt that the origin of cooperative dates back to the early days of human existence. By living together, cooperation as a form of individual and societal behaviour is intrinsic to humanity. Thus, acts of mutual aid and assistance were, instinctively, rendered.

You have equally been exposed to the nature and characteristics of cooperative, which is an association of individuals of modest means, who have decided together to pool their resources in order to carry out economic activities for mutual benefits. It was pointed out that the management of such economic ventures is undertaken by members and that profit is not the motive or primary objectives of cooperative. You have also been made to know that even though some organization may resemble cooperatives, they are not- because they do not possess the characteristic of cooperatives.

5.0 Summary

In this unit, you have been exposed to the nature and characteristics of cooperatives. All that you have learnt in this unit is very critical to understanding other issues that we are going to be discussing, subsequently.

6.0 Self-Assessment Exercise

1. List and explain the elements that bring out the essence of cooperative
2. Juxtapose cooperative federalism with cooperative individualism.

7.0 References/Further Reading

Chukwu, S.C. (1990). *Economics of the Cooperative Business Enterprises*. Germany: Marburg Consult for Self-help Promotion.

Movement for Beloved Community.(2006). *Cooperative Economics*. Retrieved on July 18, 2009 from <http://home.earthlink.net/crflyer/cooperativesub.html>

Onucha, E. (1986). *Principles of Cooperative Enterprises*. Enugu: Express Publishing Company Limited.

Unit 2 Cooperative Concepts

1.0 Introduction

In the last unit, you are acquainted with the nature and characteristics of cooperatives. The present unit is going to be an extension of the first one. This is because we are still going to closely look at those features of cooperatives such as cooperative concepts and cooperative as a socio-economic entity.

2.0 Objectives

At the end of this unit, you should be able to:

- identify types of cooperative concepts and ideas
- explain cooperative as a socio-economic entity
- list components of cooperative complex
- explain cooperative in transition.

3.0 Main Content

3.1 Meaning of Enterprise

Ever since people have come together to do business as a cooperative; they have been driven by political and ethical values. It is for this reason that cooperatives are often described as value-oriented businesses.

Cooperative enterprise has been described as people-oriented; it is also seen as vital for sustainable development. Underlying these ideas are some basic philosophical concepts:

- fundamental respect for human beings and a belief in their capacity to improve themselves through mutual self-help.
- that democratic procedures applied to economic activities are feasible desirable, and efficient.
- that a democratically controlled business contributes to the common good.

From the foregoing, we can see clearly that, the concepts of cooperatives encompass the following:

- a duly registered association of persons.
- a common bond of interest.
- members coming together, voluntarily, to achieve a lawful common social and economic end.
- a fair share of risks and benefit, in accordance with accepted cooperative principle.

3.2 Statement of Cooperative Identity

The International Cooperative Alliance (ICA), which is a worldwide cooperative movement, is the custodian of the statement on cooperative identity. This statement provides a definition of a cooperative; it also describes the values that drive cooperative and the

principles guiding their organization, structure and culture – how they put their values into practice.

The current statement of cooperative identity was adopted by the International Cooperative Alliance in 1995. The statement was the product of a lengthy process of consultation with thousands of active cooperative organization all over the world. The result of this process was a modern, contemporary meaning of what cooperative is. The statement describes a cooperative as: an autonomous association of persons united voluntarily to meet their common economic, social, cultural needs and aspirations, through a jointly-owned and democratically – controlled enterprise.

Cooperatives are based on the values of self-help, high sense of responsibility, democracy, equality and solidarity. In the tradition of their founders, cooperative members believe in honesty, sincerity, social responsibility and care for others. The statement sets out seven cooperative principles. These are the guidelines by which cooperatives put their values into practice. These principles will be examined in due course.

Self-Assessment Exercise

List the key variables of cooperative concepts

3.3 Cooperative as a Socio–Economic Entity

Although the term may be used, loosely, to describe a way of working, cooperative, properly so-called, is a socio–economic entity owned and democratically controlled equally by its members. A defining point of a cooperative is that, the members have a close association with the enterprise as producers and consumers of its products or services, or as its employees.

Cooperatives often share their earnings- as dividends, with members; these are divided among members, based on the level of their participation (patronage) in the enterprise, instead of, according to the value of their capital shareholdings (as is done by a joint stock company).

3. 3.1 Social Cooperatives

There are “type A” and “type B” social cooperatives. A type A social cooperative brings together producers and beneficiaries of a social service as members. On the other hand, type B social cooperative brings together permanent workers and previously unemployed people, who wish to integrate into the labour market.

Social cooperatives have certain features, let us take a look at these one after the other.

No more than 80 percent of profits (surplus) may be distributed. Interest is limited to the bond/stock rate, and dissolution is altruistic (assets may not be distributed).

The cooperative is a legal entity, with limited liability.

The objective is the general benefit of the community (bio-region) and the social integration of citizens.

Those of type B integrate disadvantaged people into the labour market. The categories of the disadvantaged they target may include those with physical and mental disability, those suffering from drug abuse and alcohol addiction, developmental disorders and other social

ills. They do not include other factors like race, sexual orientation or abuse as a disadvantage.

Type A cooperatives provide health, social or educational services.

Various categories of stakeholders may become members, including paid employees, beneficiaries, volunteers (up to 50 per cent of members), financial investors and public institutions. Type B cooperatives at least, 30 per cent of the members must be from disadvantaged target groups.

3.4 Components of Cooperative Complex/Combine

Historically, cooperatives have not developed in isolation, but rather in connection with a wide range of social movements with a correspondingly wide range of purposes. Three components which are common in all social and cooperative institutions are identified as sociology, praxis (action) and organisation. The triad formed by these components and the interaction between them provide a useful framework to analyse cooperative decision-making and adjustment.

The purpose of cooperative and community economic development coincide. Cooperatives have played a strong role in community economic development, viability and sustainability.

3.5 Cooperative in Transition

As democratic, member-based organization, cooperatives are experiencing a range of strains, stresses and tensions in their attempts to ensure their continued viability. This is, primarily, due to their attempts to provide economic benefits to members while also meeting their social goals. Consequently, co-operatives appear to be undergoing a new wave of adjustments and are reflecting specific features, which bring into question whether they will remain cooperatives. Analysis of how cooperatives are responding to current challenges will provide lessons for other voluntary democratic member-based organization. The basic question we may now ask is- how can cooperatives respond to current challenges while meeting members' social and economic needs? The impact of the adjustments on organizational structure, participation of members, democratic values and contributions to community economic development are enormous.

The study of cooperatives, following the new trends, must incorporate economics, history, sociology, organizational behaviour and management, political science and community economic development. This is because cooperatives are multi-dimensional organization. They have both economic and social goals, and routinely trade off attainment of one to achieve the other. They are business enterprises, and so, they must be managed. They are democratic organization which mirrors the transitions and adjustments occurring in society and in the economy. Approaching the study of cooperatives through the lens of only one discipline allows understanding of only one dimension of these organizations.

3.6 Cooperative Principles

Cooperative principles are guidelines for putting the values of cooperatives into practice. Now, let us take a look at some of these.

Voluntary and open membership: Cooperatives are voluntary organization, open to all persons able to use their services and who are willing to accept the responsibilities of membership without gender, social, racial, political or religious discrimination.

Democratic nature of control mechanism: Cooperatives are democratic organization controlled by members who actively participate in setting policies and making decisions. Men and women serving as elected representatives are accorded membership. In primary cooperatives, members have equal voting rights (one member, one vote); cooperatives at other levels are also organized in a democratic manner.

Economic participation: Members contribute equitably, and democratically control the capital of their cooperative. At least, part of their capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surplus for developing their cooperative, possibly, by setting up reserves, which are taken advantage of, in proportion to their transactions with the cooperative. Also, surplus can be deployed to support other activities approved by members.

Autonomy and independence: Cooperatives provide education and training for their members elected representatives, managers, and employee so they can contribute effectively to the development of the association. They inform the general public, particularly young people and opinion leaders – about the benefits of co-operation.

Co-operation among cooperatives: Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

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

Self-Assessment Exercise

List the principles of cooperatives.

4.0 Conclusion

In this unit, you have learnt the concepts of cooperative, cooperative as a socio-economic entity as well as components of the cooperative complex/combine. You have also been taken through what cooperatives in transition and cooperative principles are all about. This will boost your understanding of other concepts that will be discussed subsequently.

5.0 Summary

In this unit, you have been exposed to the nature of cooperatives generally; you have been taken through basic concepts like cooperative identity, cooperative as a social-economic entity, and cooperative in transition and so on.

6.0 Self-Assessment Exercise

1. Cooperatives can be regarded as both social and economic institutions. Explain.
2. List and explain the components of cooperative.

7.0 References/Further Reading

Cooperative UK (2005). *Concepts and Ideas*. Retrieved on July 22, 2009 from

<http://www.cooperative-uk.coop/Home/miniwebs A-Z/>

Owojuyigbe, S. (1998). *Cooperatives Administration and Field work in Nigeria*. (2nd ed.). Ibadan: AnuOluPublishers.

Unit 3 Explanation of Cooperative Terminologies

1.0 Introduction

In the last unit, you were taken through cooperative concepts and principles. The essence was to give you an insight into the philosophical and ethical basis of cooperative movement.

In this unit, however, you will be taught various cooperative terminologies such as cooperative spirit, cooperative frequency, cooperative effect, cooperative movement, and cooperative nexus as well as advance reasons why cooperative is a Non-Governmental Organization (NGO).

2.0 Objectives

At the end of this unit, you should be able to:

- explain what a cooperative spirit is
- explain what cooperative frequency is
- describe cooperative effects
- explain what cooperative movement is
- determine what cooperative nexus is
- list reasons why cooperative is a Non-Governmental Organization (NGO).

3.0 Main Content

3.1 Co-operative Spirit

Cooperative spirit emphasizes that each member should place the cooperative society and its interests over and above that of the individuals that make up the cooperative. In other words, the spirit emphasizes the supremacy of cooperatives over everything else, including the personal interest of the members.

However, before this desirable practice can take place, there must be an inner conviction that the cooperative is able to cater for the needs of members at any particular point in time, regardless of prevailing circumstances. The felt needs constitute those unfulfilled desires that tend to drive people into the brink of despair and hopelessness such as the need for food, water, shelter, security, protection, self-esteem, love and self-actualization. These needs are very important in the life of a man, and they must be meaningfully satisfied through the combined efforts and solidarity of the cooperative society.

Consequently, members of cooperatives should be ready to submit to the decisions of the majority, to work together with other members of the group. They should also support the cooperative at all times rather than deserting it at the slightest opportunity, especially in times of temporary difficulties. It is also imperative for the hired manager of the cooperative and his subordinate staff to possess cooperative spirit by having a sense of dedication to the society.

3.1.1 Level of Intensity of Cooperative Spirit

As cooperative spirit is a product of inner conviction, its level of intensity differs considerably. In other words, there is a correlation between the level of intensity of cooperative spirit and the motivating factor for becoming a member. If membership has been forced on an individual, the intensity of his/her cooperative spirit will not be as strong as when membership is based on his free will. Cooperative spirit will also differ, depending on the size of the cooperative. It tends to be higher in a small cooperative than in a large group such as a cooperative apex organization.

3.2 Cooperative Frequency

The idea of replacing economic competition by the mutual cooperative of producers and/or consumers, as well as how often this scenario replays itself is at the heart of cooperative frequency. In principle, all economic activities that have to do with the processes of production, distribution, and exchange may be included in a scheme for cooperative. It is one of the key principles of economic co-operation that net earnings are redistributed directly (usually, on annual basis) to the members of the association and do not serve as profit for a separate group of owners or investors.

In practice, cooperatives of many kinds have emerged and flourished across the world, particularly in the areas of farming, industry, and the service sector; these can be in the form of consumer societies and housing association.

Cooperatives have been more common and more successful in capitalist societies than under socialist system of economic planning. Yet, for many democratic socialists and anarchists, the cooperative principle-linked to the ideal of control as being vested in workers, remains an important starting point for building a vision of an alternative society to both capitalism and state socialism.

3.3 Cooperative Effect

Cooperative effect, in general term, is the degree of extra satisfaction which a member derives as a result of being a member of a cooperative, compared to when he/she does not to any cooperative association. It, therefore, draws a comparison between the level of satisfaction derived before joining the cooperative and the level of satisfaction derived after becoming a member.

3.3.1 Determining Cooperative Effects

Determining cooperative effect demands a consideration of, at least, two business periods, in respect of the level of satisfaction enjoyed by a member. The first period is when the individual is on his/her own, and carries out all the functions required by his business enterprise without recourse to any other party. It is assumed that he derives a measure of satisfaction.

However, when eventually decides to join and participate in the cooperative and in the process, he/she derives another level of satisfaction and his/her new level of satisfaction represents the cooperative effect.

More of cooperative effects, especially as they affect members and non-members, shall be treated in subsequent section(s). Various types of cooperative effects- social, economic, educational, etc., will be treated also in subsequent sections.

Self-Assessment Exercise

Explain cooperative effects

3.4 Cooperative Movement

The Columbian Encyclopaedia states that cooperative movements can be described as follows:

“Series of organized activities, that began in the 19th century in Great Britain and the world, whereby people organize themselves around a common goal, usually economic. The term usually refers, more specifically, to the formation of non-profit economic enterprises for the benefit of those using their services.”

Considering world cooperative movement, it is worthy of note that the important European countries in which consumer co-operation received early popular support were France, Germany, Belgium, Australia, Italy, Denmark, Finland, Norway and Sweden. The Swedish movement, which became remarkably successful in both the distributive and manufacturing fields, is a significant force in the Swedish economy which is often called “the middle way”, to indicate its position between individual enterprise and socialism.

Following the establishment of Fascist dictatorships in Italy and Germany, the cooperative movements of these countries were systematically destroyed. However, considerable progress has been made in rehabilitating cooperative since the demise of these Fascist dictatorships. Consequently, cooperative has become an important part of the economic life of countries in Eastern Europe, Africa, Asia, Australia and the Americas.

The membership in the International Cooperative Alliance (ICA), which was formed in 1895, gives some ideas of the size of cooperative movement today. In the mid-1980s the ICA recorded a membership of about 355 million individuals. Affiliated organization existed in some 70 countries, comprising societies of various types, including consumer, agricultural, fishery, productive and artisan, building and housing, and credit cooperatives. The greatest concentration of membership was in Europe, next in rank was Asia.

Through the alliance, mutual trading and financial relations are facilitated between cooperative organization in various countries engaged in wholesaling, marketing, production, banking and insurance.

Self-Assessment Exercise

Give a brief outline of the activities of the International Cooperative Alliance (ICA)

3.5 Cooperative Nexus

Cooperative nexus is the relationship between a cooperative organisation, as a business entity and member's private business enterprise or household economy. The cooperative is,

thus, established to promote the interest of its members. Members depend on the Cooperative for performance. The more, dependent a member is, and the more crucial the service of the cooperatives for his continued existence, the higher the chance that he will demonstrate greater concern, enthusiasm and a higher level of cooperative spirit.

Self-Assessment Exercise

Select any cooperative society within your area; seek for permission to attend any of their meetings. Observe whether there is a cooperative spirit or not; give reasons for the outcome of your observation.

3.5.1 Why a Cooperative Society is a Non-Governmental Organization (NGO)

Before we advance reasons why a cooperative is a Non-Governmental Organisation (NGO), we should situate cooperative with what NGO does by outlining their functions as follows:

- Membership consists of rural organization committed to poverty alleviation through the institutional and enterprise development of the low-income rural Nigerians with particular emphasis on farmers.
- Supporting rural dwellers by improving socio-economic conditions and promoting their general welfare.
- To promote popular participation in decision making.
- To develop skills, improve knowledge; promote culture and consultative process in decision making.
- To give the people a sound knowledge of the local technology, tradition and culture which are for economic development.

Thus, it is obvious that a cooperative is a non-governmental organization because it involves a pooling of private resources towards achieving a socio-economic and political end.

4.0 Conclusion

In this unit, you have learnt about the cordial relationship that should exist between cooperative organization and members, for the attainment of the desired end. There is also cooperative nexus, a kind of bond that ties the cooperative to the member; and as long as the cooperative spirit and the bond are strong in the hearts and mind of the members the cooperative will continue to wax stronger.

For the continuous survival of a cooperative, there should be the cooperative spirit, which places the cooperative organization over and above personal interests of the members of the cooperative society. This is very important.

5.0 Summary

In this unit, you have been exposed to the concepts such as cooperative spirit, cooperative frequency, cooperative effect, cooperative movement and cooperative nexus. You would have noticed the similarities between cooperatives and NGOs; these represent the foundations on which the survival and continuity of cooperatives rest.

6.0 Self-Assessment Exercise

1. Critically analyze the cooperative nexus that exists in a cooperative organization.
2. Trace the history of cooperative movement.

7.0 References/Further Reading

Chukwu, S.C. (1990). *Economics of the Cooperative Business Enterprise*. Germany: Marbug Consult for Self-Help Promotion.

Gates, J. (1998). *The Ownership Solution*. London: Penguin.

Unit 4 Approaches to Defining Cooperative

1.0 Introduction

Our focus in this unit is to examine various approaches to defining a cooperative, having already looked at the nature of cooperative and various cooperative terminologies in units 1 and 2. We have also seen the relationship between self-help organisation and cooperatives and the reasons why cooperative- as a socio-economic entity- is considered a Non-Governmental Organization (NGO).

In this unit, you will learn the following two major approaches to defining a cooperative.

1. The Essentialist approach
2. The Nominalist approach

2.0 Objectives

At the end of this unit, you should be able to:

- explain what a cooperative is, using the essentialist and nominalist approach
- define the term “cooperative” in your own word.

3.0 Main Content

3.1 The Essentialist Approach to Defining a Cooperative

The essentialist approach attempts to define cooperative in terms of values, ideologies and overall economic and social goals. To attain any accomplishment, these values, ideologies as well as economic and social goals must be pursued with a sense of mission.

However, since nations and people ascribe different meanings to the terms, values and ideologies, the universal acceptability of these terms becomes difficult. Hence, the essentialist approach has its limitations. For instance, values, ideology and goal differ between different economic systems. We all know that Nigeria practises a mixed economy in which different values and different long term goals may be found to be more emphasized in the different sectors of the economy.

The problems became apparent when it is realized that cooperatives are found in all economic systems, whether it is a capitalist system or socialist system or even a welfares system. People in these different economic systems organize themselves or are organized to form cooperatives. Consequently, cooperatives are present in all the sectors and businesses existing in every economic system all over the world.

From the foregoing analysis, it is obvious that no essentialist definition of cooperatives can incorporate all the diverse values, goals and ideologies- extant in all the economic systems, in one definition. This is because what is essential to one system may be essential or not essential in another system. It is a case of one man's meat is another man's poison. The essentialist approach cannot present a suitable avenue for analysis, findings and recommendation that have universal application.

3.2 Nominalist Approach to Cooperative

Looking at the Nominalist approach to the definition of cooperative, it can be observed that the approach attempts to select structural elements of organization present in all institutions which claim to be cooperatives in any economic system and sector. This is the reason it is readily accepted. The structural elements, which are readily emphasized, are listed below.

- Individuals or persons who operate their private businesses or who operate their households are unified by a common goal.
- Joint action by a group, which attempts to attain certain predetermined goal through economic empowerment of the group, by mutual help.
- A jointly owned long term/permanent business enterprise as a channel through which goods and services are produced.
- A special promotional relationship between members' private business and the cooperatives enterprise, which are saddled with the responsibility of promoting members' welfare by making its goods and services directly available to the members (as customers or in such case of producers' cooperative, as employees).

3.3 Examples of Definitions from the Two Approaches

An example of the Essentialist approach to the definition of a cooperative states that- *it is an association of socially weak persons trying to achieve certain social aims, within the framework of an enterprise open to all, and based on the rules of solidarity and democracy. It instills ideas of mutual help and social responsibility, as part of a new, ideal society.* In analysing the above definition, certain problems become apparent, let us look at these one after the other.

- How does one define “socially weak persons” in a socialist economy, a capitalist economy or mixed economy? Obviously, there is no common basis.
- In what ways are we to define what is meant by an enterprise, the system of rules of solidarity and democracy in all economic systems, sectors and institutions?
- It is difficult to establish a common parameter for social responsibility to the government, community, shareholder, customers etc., in every economy.

Having given the example of essentialist definition above, now let us look at an example of a Nominalist definition below; this states that *a cooperative is an association of persons, usually of limited means, who have voluntarily joined together to achieve economic end, through the formation of a democratically controlled business organization, making equitable contribution to the capital required and accepting a fair share of the risks and benefits of the undertakings.*

Self-Assessment Exercise

- i. What are the two approaches to cooperative definition?
- ii. Enumerate the essential points in the two approaches.

3.4 Explanation of the Nominalist Definition

We are going to analyze the Nominalist approach to cooperative definition in this section; in doing this, we are going to consider the variables listed below.

Association of people: It is apparent, from this definition, that a cooperative society is an association of persons who are ready to work together; it is made up of people who understand themselves, who are ready to solve their problems jointly and who are socially fit to associate with one another. This is not to say that a cooperative society should be an association of armed robbers, thieves, and fraudsters, among other socially deviant segments of our populace.

Limited means: Empirical studies show that those persons that join together to form cooperatives are usually of limited means, but not paupers. They must be willing to pool their resources together.

Voluntary union: People are free to join or not join a cooperative society. In other words, individuals are not forced to join a cooperative. The decision to team up with others to form the society rests with every individual. If people are made to join cooperatives through some inducements, in the form of money from government or any other institution, as soon as the inducements are no longer forthcoming, the members' interest will wane and this may lead to the collapse of the society.

Towards a common economic end: We should note that the major aim of a cooperative is to achieve economic goals, which include making profit or surplus. In a cooperative society, profit is regarded as surplus. Other goals include- the ability of members to make more money, buying goods cheaply, getting loans, with little interests, for the purpose of investment, among others.

Practice of democracy: Cooperative enterprises are democratically controlled. This means that cooperative business is controlled by the unanimous decision of members. No matter the status of any member in the community or the amount of his/her money invested into the business, he/she is only expected to vote once on any issue that requires voting. This is in contrast with other business enterprises whereby the amount of shares a shareholder has determines his/her voting power. Consequently, in cooperatives, the axiom- "one man, one vote" is the norm.

Business enterprises: A cooperative is a business entity and not a humanitarian organization. Business concepts, techniques and principles are brought to bear on the management of cooperatives.

Equitable contribution to the capital: Since a cooperative is a business venture, equitable contribution is expected by all members, including prospective members.

Fare share of risk and benefit: In cooperatives, every member participates in the management of the cooperatives so that, at the end of the year, through efficient management, surplus can be made. If this is the case, each member will have a fair share of the surplus, depending on patronage and contribution.

In a cooperative, a member is both a co-owner of the cooperative and also a customer or end-user of the society's products and services. On the other hand, if a loss is declared at the end of the financial year, the entire members will also share the loss.

4.0 Conclusion

In this unit, you have learnt the two approaches to the definition of cooperatives, namely- the Essentialist approach and the Nominalist approach. You would have seen that because of some observed shortcomings of the Essentialist approach, the Nominalist approach is commonly accepted. This is because it provides good ground for the analysis of what a cooperative is.

5.0 Summary

In this unit, you have been exposed to the various approaches to defining a cooperative. You have also been taken through various variables which are peculiar to the Nominalist school of thought.

6.0 Self-Assessment Exercise

1. The Nominalist approach on the definition of cooperative is preferred to the Essentialist approach.
2. Discuss cooperative enterprise is the soul of cooperative economics. Discuss.

7.0 References/Further Reading

Chukwu, S. C. (1990). *Economics of the Cooperative Business Enterprise*. Germany: Marburg Consult for Self-Help Promotion.

Onucha, E. (1986). *Principles of Cooperative Enterprises*. Enugu: Express Publishing Company Limited.

Unit 5 Promotional Motives of a Cooperative Business Enterprise

1.0 Introduction

In this unit, you will be introduced to the problems which compel individuals to form cooperative societies in order to solve these problems. This unit is, organically, linked to the next unit-which explains the need for individuals with similar problems to come together to form a cooperative.

The environmental factors that should exist to facilitate the promotion or establishment of cooperatives are both economic and non-economic in nature. These factors impact, either positively or negatively, on the formation of a cooperative in a given area. All these are usually reflected in the report of the economic survey conducted by a cooperative officer. You will, definitely, learn more about this in the future when you will be dealing with cooperative field work administration.

2.0 Objectives

At the end of this unit, you should be able to:

- explain the economic problems faced by individuals that may
- necessitate the establishment of co-operatives
- discuss the non-economic conditions for the formation of cooperatives.

3.0 Main Content

3.1 Problems Faced by Individuals in their Economic Units

Since the level of economic development varies from one place to the other, problems of individuals also vary in their various economic units. The problems faced by individuals in such areas as small-scale industries, household setting and agricultural setting, etc., inform the need for pooling resources together in order to solve these problems.

For instance, lack of capital among a group of farmers, and the need to enjoy from economies of scale may compel them to form a cooperative. Similarly, operators of small-scale industries may individually find it difficult to access fund to finance their operations, due to lack of collaterals; but when they form cooperatives, they will be able to access fund easily.

Within a household comprising father, mother and children, there are usually problems of how to meet the basic necessities of life such as-feeding, shelter and clothing, and so on; tackling these problems will demand making series of economic decisions. By joining cooperatives, household problems can be taken care of with ease.

3.1.1 Various Economic Conditions Prevalent in Societies

As stated above, the levels of economic development vary from one community to the other. Levels of economic development take two extreme forms. Let us look at this below.

Subsistence economy

In this instance, the output of business enterprises is mainly for domestic consumption. The business exists only to produce goods and services for the basic consumption of the family. Some may, afterwards, be sold in the subsistence economy. Here, to form a cooperative will be difficult. This is because all needs are met within the individual business unit, without linkage to the outside. There is little or no income that will be needed to successfully start a cooperative, for example, paying membership registration fees, savings in the cooperative, among others.

However, an interim structure (something that looks like a cooperative) can be started, especially in the rural areas. There is no need to be in a hurry on the registration of the interim structure, this is because registration requirements are stringent.

Market economy

This is the opposite of the subsistence economy. Here, income provides the basis for the formation of a cooperative. Also, the needs of members are met, not only internally, but also externally through exchange. The basis for establishing cooperative is firmly provided.

Let us take a look at other variables that are crucial to the formation of a cooperative society.

The average level of income of prospective members in a given area

You may wish to recall our definition of a cooperative as mentioned earlier on. One of the characteristics of a cooperative is that, members are also owners and users of the goods and services of the cooperative society.

The implication is that, a member must contribute to the provision of inputs such as capital. Where the average level of income is so low that the initial capital cannot be raised, establishing a cooperative will be met with difficulties that can delay the take-off.

Self- Assessment Exercise I

Give two reasons why establishing a cooperative may be difficult for these classes of people.

Soldiers

Subsistence farmers

Cattle rearers

What will be your advice if they have to form cooperatives?

The average size of the prospective members' business enterprise in a given area.

Where there are large business organizations in an area, these business units are already enjoying economies of scale. Consequently, the desire to come together to form cooperatives will be very weak; but in areas where there are small businesses, there will be the strong desire to pool resources together and establish a cooperative. This is not to say that, cooperative membership is only for relatively small business units. It is advantageous, especially in the area of cost reduction, to recommend a cooperative that accommodates both small and the relatively large units in order to achieve efficiency.

3.2 Lifestyles of Prospective Member

There are again two extreme lifestyles that need to be considered. Let us look at these one after the other.

A nomadic lifestyle

This lifestyle is characterized by constant movement of family, homestead and economy of the producer. This lifestyle makes it difficult to establish cooperatives. The “group”- which is very basic of the formation of cooperative, does not exist in this type of set-up. Moreover, the area of operation and the fixed address of the cooperatives as required by law cannot be established in a nomadic lifestyle.

(b) A sedentary lifestyle

This is the opposite of the nomadic lifestyle. It is characterised by fixed abode in specific settlements. That is where group bases and inter personal relationship are much more likely to occur. It is upon these bases that cooperatives can be established.

3.3 Impressions of Prospective Members about the Performance of Existing Businesses

Obviously, there are still other forms of businesses apart from cooperatives. In fact, cooperatives constitute just one form of business. Consequently, in a given area, there could be other businesses operating there. If prospective members have found the performance of these businesses to be unsatisfactory, that is, if they are dishonest, charging exorbitant fees and supplying substandard products, and do not deliver on schedule, the probability is high that they will be favourably disposed to forming cooperatives as an alternative to the sharp practices of the other businesses.

However, if these other businesses are doing good jobs, supplying good quality products, providing efficient service, charging moderate prices and so on, then the desire to form cooperatives will not be that strong. Suffice it to say that there is the need for adequate information as to the real activities of business organization, especially in a developing country. This is because the actual operations of business organization are not disclosed to the public. It is a known fact that, some organization will even publish two sets of accounts- the one meant for public consumption and the one for the internal members of the organization.

Obviously, the general public will not know the exact amount incurred in producing a given item, let alone finding out whether they are being cheated or not. In the same vein, if existing cooperatives are seen as inefficient, if the officials are corrupt and not prepared to listen to their members, the impression arising from this will be extended to all forms of cooperatives generally.

3.4 Existing Geographical Conditions and Social Structures

In general terms, where natural geographical conditions are difficult and unfavourable, the inhabitants of such areas show a high sense of the need to co-operate. This is because individual survival lies in the survival of the group, care and support for each other. Also, an area having high population density tend to offer better chances of the people coming to form co-operatives when compared to an area where the inhabitants are scattered and with no good communal or interpersonal relationships.

Similarly, in a community where the people are vibrant, with strong local leadership, and virile social groupings, modern cooperatives can take-off, easily, on these structures; particularly, where the structures are seen as established, existing traditions.

3.5 Availability of Promoters

It quite does occur that, it is not in all cases that members of a profession or trade will organize members of the same profession to form a cooperative. For example, an electrician may organize fellow electricians to establish a cooperative. It is very likely too that an outside person can be so motivated to bring others together to form a cooperative. This outside person may not even belong to the same social or economic class. Such an individual is called a promoter.

This means that the members of the cooperatives he has formed did not just get up and act on their own without any external influence. They were prompted and prodded. Therefore, the activities of promoters are important here.

3.5.1 Types of Promoters

In developing countries such as Nigeria, promoters include philanthropists, religious bodies, trade union, government and existing cooperative institutions. Let us take a look at these briefly.

Individual philanthropists: The philanthropists, in some cases can be politicians, who are, generally, not trusted that much; they are viewed with suspicion.

Religious bodies: Faith-based organizations have been very active in some cases. However, with the increase in religious fanaticism and rivalry between Muslims and Christians, and also internal rivalry within the sects, there is the danger that the cooperatives promoted by these bodies may become not only exclusive, but also instruments in the settlement of scores between rivals.

Trade unions: Trade unions have also been active in the promotion of cooperatives. However, the danger in trade union trying to promote cooperative is in using the cooperative as a weapon for ideological warfare. The right attitude is simply to regard the cooperatives as an alternative form of business.

In addition, while trade union and cooperatives have some things in common, there are areas of differences which, if ignored, can lead to frictions and tensions in the overall activities of cooperatives of the state or country.

Government as promoters: It is a fact that, government promoters often tend to not only promote but to dominate and even take over the cooperatives when eventually established. In this case, the cooperatives tend to become mere instruments for pursuing government's aims and objectives rather than those of the members. Such institutions do end up as pseudo-cooperatives, rather than actual cooperatives. As such, government promotional motives for cooperative are not altruistic.

Existing cooperative institutions: Existing cooperative institutions can also be promoters. For example, the unions, the apex organization, among others can, and should sponsor and promote cooperatives.

Self-Assessment Exercise

Select a familiar Community, taking the factors we have considered above into cognizance, list the conditions that have engendered the establishment of cooperatives in this community.

Also, indicate the type of cooperatives that can be established. Give reasons.

4.0 Conclusion

Having looked at the major promotional motives of cooperative business enterprises, you would have seen that the motives do not exist in isolation. They should be seen via a checklist. It is not in all cases that all the conditions will be positive or negative. You should be able, therefore, to assess whether the positive ones outweigh the negative, and vice versa. This outcome of the analysis will inform the decision whether to promote (establish) a cooperative or not.

5.0 Summary

In this unit, you have been taught the motives behind the promotion of cooperative business enterprises. These motives are both economic and non-economic. If a decision is taken to establish a cooperative, such a business entity must survive and continue to be in business.

6.0 Self-Assessment Exercise

1. List and discuss the problems faced by individuals in their economic units such as small-scale industries, household settings and agricultural sector.
2. How do government promoters influence the decision to establish cooperatives in Nigeria?

7.0 Reference/Further Reading

Chukwu, S.C. (1990). *Economics of the Cooperative Business Enterprise*. Germany: Marburg Consult for Self-Help Promotion.