

## THE ROLE OF COOPERATIVES IN IMPROVING THE RURAL ECONOMY: A LITERATURE ANALYSIS

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### Abstract

Cooperatives are often regarded as the backbone of the rural economy, contributing significantly to the improvement of the socio-economic welfare of its people. The study method in this research uses the literature method. The results show that cooperatives have substantial potential to support rural economic development and diversification, but also require a strategic approach and appropriate policy support to fully realise their contribution. The conclusion of this study confirms the importance of cooperatives in accelerating rural development and calls for more effective and coordinated development efforts.

**Keywords:** Role of Cooperatives, Rural Economy.

### Introduction

Cooperatives as a membership-based business model have long been recognised as one of the important pillars in the economies of many countries, particularly in the rural context. Since their inception, cooperatives have not only functioned as economic institutions that aim to improve the welfare of their members through joint ventures, but also as community empowerment tools that enable rural communities to be actively involved in economic and development activities.

Economic development in rural areas has enormous importance and is a key component in the national development strategies of many countries, especially in developing countries. Rural areas are often associated with underdevelopment in terms of infrastructure availability, access to education, health, and financial services, as well as limited employment opportunities (Houlden, 2024). Therefore, economic development in these areas is not only important for improving the quality of life of rural communities but also essential in reducing inter-regional inequality, addressing the problem of excessive urbanisation, and strengthening food security and the national economy. (Maksimov, 2023).

Investments in rural economic development also spur sustainable growth by leveraging local resources, such as agriculture, fisheries and forestry, which are often the backbone of the economy in many rural areas. Through local economic empowerment, it not only creates employment opportunities but also spurs innovation and entrepreneurship in the rural environment. (Maksimov, 2023). Improvements in basic infrastructure such as roads, irrigation, and information technology can expand market access for rural products, increase productivity, and directly contribute to income generation. Thus, rural economic development is a multidimensional strategy that impacts social, economic, and environmental stability (Kroeber, 2020). (Kroeber, 2020).

In many cases, cooperatives play a role in reducing economic inequality, providing access to financial resources, expanding employment and business opportunities, and increasing the resilience of the economy to market fluctuations. While cooperatives have been shown to contribute significantly to rural economic development, there are still a number of challenges faced in streamlining their role. Some of these include limitations in access to capital, lack of managerial and technical capacity, and challenges in adapting to market and technological changes (Silva & Caleman, 2021). (Silva & Caleman, 2021). As a result, the full potential of cooperatives in helping to improve the rural economy has not been fully realised. Moreover, the rapidly changing dynamics of the rural economy due to globalisation and urbanisation present new challenges and opportunities for cooperatives. Therefore, it is crucial to understand the role of cooperatives in the current context and how they can adapt and evolve to continue to have a positive impact on the rural economy. (Pentland & Hardjono, 2021)..

This research examines the role of cooperatives in improving the rural economy, so that cooperatives can be effective in encouraging rural economic development.

## **Research Methods**

The study in this research uses the literature method. The literature research method is a systematic approach in collecting, reviewing, and analysing data derived from written document sources, such as books, scientific journals, articles, and other published materials, to gain an in-depth understanding of the topic under study. (Firman, 2018); (Suyitno, 2021). Using this technique, researchers can identify patterns, theories, gaps in existing research, and also establish a theoretical foundation for future research. The research process involves selecting relevant and credible literature sources, critically reviewing, and synthesising information to build arguments or present findings. This method plays an important role in strengthening scientific work by providing a rich theoretical context, avoiding duplication of research, and helping to set new directions for future research. (Jelahut, 2022).

## **Results and Discussion**

### **The Role of Cooperatives in Improving the Rural Economy**

A cooperative is a business organisation owned and operated by its members to meet their economic, social, and cultural needs through democratic joint ventures. Unlike a private or public company, the main objective of a co-operative is not to make a profit, but rather to focus on service and benefit for its members. Co-operatives operate on the principles of mutual aid and co-operation, allowing members to own shares and jointly make decisions in running the business. This spirit of collectivity and equality not only strengthens the social bonds between members but also aims to improve their overall well-being. (Castro & Rubio, 2024)..

There are several basic principles governing the operation of cooperatives, which are internationally approved by the International Cooperative Alliance (ICA). These principles include open and voluntary membership, democratic control by members (one member, one vote), economic participation of members, autonomy and self-reliance, education, training, and information, co-operation among co-operatives, and concern for the community. (Ammirato, 2024). These principles are designed to ensure that cooperatives operate in a fair and effective manner, meet the needs of their members, and contribute to the development of the wider community. This creates a unique business model, which is not only orientated towards profit, but also towards improving the quality of life and sustainable development. (Douvitsa, 2023)..

Rural economies have distinctive characteristics that set them apart from urban economies, often characterised by the dominance of the agricultural sector, small scale of businesses, and relatively lower income levels. While agriculture is the main economic activity, rural economies may also include other activities such as fishing, forestry and handicrafts. Underdeveloped infrastructure, limited access to markets and financial resources, as well as high dependence on natural resources and seasonality, are common challenges faced by rural economies. (Akimbekova et al., 2023). With populations often spread over large areas, communities in rural areas face difficulties in accessing education, healthcare, and communications. Despite these challenges, the rural economy plays an important role in the national economy through its contribution to food production, environmental conservation, and as a socio-economic buffer (Watson et al., 2023). (Watson et al., 2023)..

Co-operatives play an important role in boosting the rural economy, which is one of the key pillars to help rural communities achieve a better standard of living. With a basic philosophy that focuses on co-operation and togetherness, cooperatives are a tool of economic emancipation for farmers, small workers, and other members of rural communities. Cooperatives provide a platform for their members to enter the market

in a more organised manner, giving them better leverage in terms of price negotiations and product distribution. As such, cooperatives help prevent exploitation by middlemen and ensure that smallholder farmers and workers get a fair price for their produce and labour. (Milgram, 2022).

In addition, co-operatives also provide access to financial services such as credit on easier terms and at lower interest rates than conventional financial institutions. This is particularly important in rural areas, where access to banks and financial institutions is often limited. Savings and loan cooperatives, for example, enable members to obtain the capital needed to start or expand their businesses, be it agriculture, trade, or other types of micro and small enterprises. This access to credit not only supports individual members' economic activities but also stimulates the local economy as a whole by encouraging production, consumption, and infrastructure development (Lo & Kibalya, 2015). (Lo & Kibalya, 2023).

Furthermore, cooperatives often play a role in building the capacity of their members through education and training. By providing information and expertise on the latest agricultural techniques, business management, and other relevant skills, cooperatives equip members with the necessary tools to improve the productivity and quality of their products. This initiative not only increases members' efficiency and income but also strengthens their resilience to changing market and climatic conditions, which is particularly important in the rural context. (Sevinç, 2021).

Ultimately, cooperatives support the development of a more inclusive and sustainable rural economy. Through the promotion of co-operation and democratic principles, co-operatives accommodate the development of small and micro enterprises and ensure that the benefits of economic activity are felt by a wider range of community members. The contribution of cooperatives to improved market access, financial services, production capacity, and economic resilience is an important foundation for holistic rural development, strengthening the socio-economics of rural communities amidst changing global challenges.

### **Factors Influencing Co-operative Effectiveness**

The effectiveness of a cooperative is determined by various interrelated factors. One key factor is good management and governance. Strong and transparent leadership, as well as democratic decision-making, are key to ensuring that the interests of all members are taken into account and that the cooperative operates in accordance with the basic principles of cooperatives. This includes management's ability to devise solid business strategies, manage assets wisely, and maintain member integrity and trust. Leaders who are able to inspire members and manage resources effectively are critical to achieving the co-operative's common goals. (Ingutia & Sumelius, 2022).

The second factor is active member participation. The success of a co-operative depends heavily on the involvement of sufficient and qualified members. Members who

actively participate in the cooperative's activities, from strategic planning to the execution of day-to-day activities, ensure that the cooperative reflects their needs and wants. This also includes members' ability to give input and receive feedback, resulting in effective two-way communication. Increased member participation also strengthens the sense of ownership and responsibility towards the cooperative, factors that are crucial for sustainability and further development. (SCANLAN, 2021).

Skilled and competent human resources are the third influential factor. Co-operatives need individuals with relevant skills, not only in business technicalities but also in coordinating with members and other stakeholders. Ongoing training and capacity building for members and management help co-operatives to adapt to changes in technology, markets, and regulations. These educational programmes should address the need for professionalism in a dynamic business environment, while instilling cooperative values. (Milgram, 2022).

Finally, external environmental factors also play an important role in determining the effectiveness of co-operatives. Macroeconomic conditions, government policies, legal frameworks, infrastructure, and access to markets have a significant impact on the operation and success of co-operatives. Co-operatives that are able to adapt to policy and market changes and that have good working relationships with the government and other institutions will be in a stronger position to thrive. In addition, support from the government in the form of subsidies, training, or other incentives can increase the capacity of co-operatives to serve their members more effectively.

Overall, the effectiveness of a co-operative depends on prudent management, active member participation, human resource development, and favourable external conditions. All these factors must work together to form a cooperative that is resilient and capable of contributing to the economic development of its members and the surrounding community.

## **Conclusion**

Cooperatives play a key role in improving rural economies, as evidenced by analyses of related literature. As member-based entities focused on collective needs, cooperatives contribute to rural economic development through job creation, improved access to markets and resources, and fairer income distribution. By bridging the gap between small producers and large markets, co-operatives help reduce poverty levels and improve the welfare of their members. In addition, co-operatives also play an important role in local community empowerment and capacity building, enabling members of rural communities to improve their skills and knowledge and take control over their economic future.

As such, cooperatives play a vital role in rural economic transformation, not only as catalysts for economic growth but also as tools for social empowerment. Through the promotion of solidarity, co-operation, and collective ownership, co-operatives offer

an inclusive and sustainable development model. The growth and strengthening of cooperatives in rural areas is critical to creating an economic system rooted in the principles of democracy, justice, and equality, while ensuring that the benefits of economic growth can be enjoyed by all segments of rural society.

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