

**Year Book  
of  
Agricultural  
Co-operation**

**1983**



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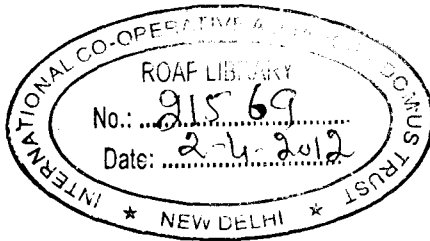
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YEAR BOOK OF  
AGRICULTURAL CO-OPERATION  
1983

*Edited*  
*by*  
J. Elise Bayley  
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C.E. McKone

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## F O R E W O R D

The Year Book of Agricultural Co-operation has been published by the Plunkett Foundation for Co-operative Studies since 1925. Its purpose is to provide a continuous review of agricultural co-operative development throughout the world from a wide range of viewpoints by publishing articles on countries at regular intervals, on particular aspects of co-operation when these are innovatory or of topical interest; and by debating or interpreting questions of co-operative principles and philosophy. Articles are invited from authors representing variously academic, government, grass-roots and outside points of view, on the basis of an annual editorial plan. However, unsolicited articles will also be considered.

Intending contributors should note that articles should conform with the general policy of the Year Book, presenting an informed analysis of the recent developments backed by factual statements and figures. (Historical references and descriptive background should be kept to a minimum). The purpose of the article should be clearly stated at the beginning and the author should develop the contribution by comparisons, critical comments or recommendations. All articles must be original and accompanied by a statement that they will not be published elsewhere; and they should not exceed 5,000 words and cannot be accepted later than June of the year of publication. Two copies of the manuscript should be submitted in English or French, typed in double spacing, with the full name of the author, his position and the name of the organisation with which he is associated. Articles are accepted for publication on the understanding that they may be subjected to editorial revision.



## E D I T O R I A L

The planning of a year book requires a disciplined approach. The policy dictates that contributions should include a balanced selection of articles to reflect co-operative development throughout the world which include country review papers, individual case studies, contributions which focus on co-operative philosophy, legislation and perhaps a sectoral review. Some of the themes are reviewed and selected with the intention of producing a series of articles describing, for example, some area of co-operation having topical interest. Marketing, livestock and cereal grain co-operatives, co-operative credit institutions, legislation have all featured in recent years. Within the themes attempts are made to include review articles on particular countries or continents where information has only recently become available or perhaps has not been reviewed in recent years. Since 1925 when the Year Book was first published detailed records have been kept of the subjects reviewed and the countries which featured in the contributions.

From all this our readers would be entitled to assume that the 1983 Year Book has been produced by carefully planning the contents and arranging the contributions around a pre-determined theme in order to present a well-balanced view of agricultural co-operation. As with so many activities practice does not always follow the theory and the best of intentions can be waylaid by circumstance. Appropriate authors are not always identified. Promised contributions do not always materialise; one can never be certain that a requested contribution will be entirely suitable in style, content and length. Occasionally unsolicited contributions appear and it becomes apparent within the first few sentences that what follows is worthy of a place in the Year Book regardless of the planned contents. Flexibility of editorial policy provides the maximum opportunity for publishing the interesting miscellany of ideas, case studies and reviews which comprise the twenty contributions to the 1983 Year Book.

Three themes run through the papers this year. Co-operation between co-operatives is the subject of two papers, and the relationship between co-operatives and the State which is seen as fundamental to the well-being of co-operatives, is reflected in several contributions describing situations in different parts of the world. And in the conclusions of many of the articles, where the co-operative situation under discussion is critically reviewed, the need for better management is constantly emphasised.

An interesting contribution by W.P. Watkins, a former director of the International Co-operative Alliance, reflects on inter-co-operation between co-operative movements and the attempts made down the years to achieve a level of understanding and unity of purpose between the co-operative sectors, movements, and nations that use and benefit from co-operative principles that are followed in their respective economic and social enterprises. On the same theme, but at a European level, a paper by J.A.E. Morley discusses the Mihr report presented to the European Parliament in Strasburg which called upon the institutions of the Community to acknowledge European associations of co-operative organisations as "permanent discussion partners on all economic and social subjects". Co-operation between co-operatives is a principle easily recommended but far more difficult to achieve in practice. Both authors draw attention to the need for consultation between co-operatives in the hope that this may eventually lead to appropriate forms of co-operation between co-operative organisations that can have widely different aims and objectives which may in some circumstances work against co-operation.

In the Editorial of the first Year Book in 1925 Sir Horace Curzon Plunkett, our founder, drew attention to a speech made by Sir Daniel Hall, Chief Technical Adviser to the Ministry of Agriculture and also Chairman of the Plunkett Foundation Trustees. In his address to the Conference on Agricultural Co-operation in the British Empire, he said "that while from the Government's point of view it was essential that the farmers should be co-operatively organised, the task of organising them must be left to voluntary agencies. It involved

a kind of propaganda which it was undesirable for Government to undertake, if only because in its effect upon business interests it might become highly controversial. Furthermore, it required for its success the type of enthusiasm it was hardly the function of civil servants to supply". In reviewing the state of co-operative development and the problems and opportunities, many contributors to this Year Book have not only in 1983 but also in previous years, referred to the sensitivity which exists between co-operatives and the State. On the one hand the State has a responsibility to advise on the benefits which collective action can bring to agricultural and rural development: on the other, too much involvement by Government in the development of co-operatives can seriously erode their ability to become self-reliant enterprises organised and controlled by their members. In her review of co-operative legislation in Malaysia Sulochana Nair has drawn attention to "the need for Government involvement in the initial stages of co-operative development". But she goes on to say "that the creation of a self-reliant co-operative movement is dependent on the eventual phasing out of this involvement". As can be seen, this subject has been of interest to co-operators for over fifty years and recent attention to the subject can be explained by the need to identify more precisely the reasons why so many co-operative enterprises, particularly in developing countries, fail to live up to the expectations set by Government.

One paper (by Terence J. Centner) deals specifically with the problem of management - and this in an industrialised country with a long history of co-operation. Aid to co-operatives in developing countries was the theme in the 1980 Year Book and many agencies give attention to this aspect of developing co-operatives. In several papers the lack of progress in - or even failure of - many co-operatives is put down to lack of managerial skills - and worse, lack of the possibility of acquiring them. Morgan and Chaudhry make this point in their assessment of progress in the Cape Verde Islands, and Dieter Benecke attributes many of the Latin American co-operative failures in part to lack of organisational skills.

*In the 1930 Year Book The Horace Plunkett Foundation (as it was then) was described as a centre of international information, and was constantly having to meet demands for "information regarding the manner in which agricultural business problems (were) being treated in other countries". Today the Foundation continues its long history of furthering the principles of co-operation by disseminating such information, but its greater aim is to improve the practice of co-operation by the active encouragement of frank analysis of problems - for governments, aid organisations and individuals to act upon - and through its own work both overseas and in the United Kingdom as adviser, consultant and trainer.*



## REFLECTIONS ON INTERCO-OPERATION

by

W.P. Watkins\*

Interco-operation is what Lewis Carroll might have termed a 'portmanteau' word and some other people a barbarous neologism. They are probably right, but the word slips off the tongue or the pen so much more easily than phrases like 'relations between co-operative organisations' or 'co-operation between co-operatives'. Moreover, it has an exact equivalent in French written 'intercoopération.

As a subject of discussion and research interco-operation must be nearly as old as the Co-operative Movement itself and certainly older than the majority of the world's co-operative movements existing today. To study the relations of the agricultural and consumers' co-operative movements of the British Isles was the writer's first task as a research student at the Co-operative Reference Library in the Plunkett House, Dublin, sixty four years ago. The subject had been chosen and agreed upon by the Librarian and the Principal of the Co-operative College, newly established at the headquarters of the British Co-operative Union in Manchester.

What evoked these reflections and memories of two generations ago was the appearance in the French *Revue des Etudes Coopératives*, No. 7, 1983, of the leading article on "Relations between Agricultural and Consumers' Co-operation; Hopes and Disappointments", by Hippolyte de Vignes de Puylaroque, who surveys the relations of the two movements over the last 25 years. In this period two important efforts have been made on the national plane to frame common policies and guidelines. The General Convention of 1959 to which the *Syndicat des Coopératives Exportatrices* and the *Société Générale des Coopératives de Consommation* (S.G.C.C.), with their respective non-commercial federations, *Fédération Nationale des Coopératives Agricoles* (F.N.C.A.) and *Fédération Nationale des*

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\*Former Director of the International Co-operative Alliance, 1951-1963.

*Coopératives* (F.N.C.C.), were signatories, aimed at promoting direct trading which could increase the farmers' income and reduce the consumers' cost of living by eliminating the middleman. The notable lack of practical achievement on these lines during the 1960's, when the agricultural co-operative movement was preoccupied with its internal structural problems, led to renewed efforts of co-ordinated action in the 1970's, sponsored by the *Groupement National de la Coopération*. In 1976 a seminar produced a number of suggestions for common policies and joint action. In the ensuing years projects and schemes of inter-co-operation were discussed and even carried out. Enduring success, however, was rare, so that once again enthusiasm relapsed into disillusionment.

Nevertheless if the general picture is patchy, there are regional and local examples of materially satisfactory and stable relations between agricultural marketing and processing co-operatives and their consumer co-operative customers. The aggregate volume for inter-trading for 1982 is estimated at Frs. 1,700 million at present-day prices, of which about one half was transacted with the wholesale society S.G.C.C. The consumers' co-operative movement, with a total membership exceeding 2 million families, had aggregate sales of Frs. 25,000 millions, equal to 4.3 per cent of France's national retail trade in food, including nearly 7 per cent of all beverages. By contrast the *Confédération Française de la Coopération Agricole*, with 4,140 primary co-operatives had an annual trading volume of Frs. 170,000 million, equal to about a half of France's agricultural production.

Only a minor portion of existing inter-trading resulted from the Convention of 1959 or the Seminar of 1976. The major part was much older, having grown up more or less spontaneously in places where co-operative leaders on both sides were alert enough to perceive and exploit suitable opportunities, to the benefit of both parties. It would be rather surprising if a comprehensive scrutiny of the records did not reveal that the permanently successful projects were exceeded in numbers by the experiments abandoned as failures.

The article's account and analysis of recent French experience provoke the question why so many efforts at inter-co-operation viewed over the years recall the mythical store which Sisyphus had to roll to the top of a mountain and which always rolled down again. Is it because the problems to be solved are so complex, requiring the fulfilment of many conditions on so many different planes? Taking as obvious the need for any inter-trading project to be a sound business proposition, what has been lacking when co-operators from different branches of the movement have come together? Or alternatively, what elements have been positive hindrances to effective and sustained collaboration?

Monsieur de Vignes de Puylaroque put his finger on one weakness to which co-operative organisations of all types seem to be liable; namely an administrative structure in which the capacity of responsible officers for decisions, initiative and innovation is restricted by the necessity of consultation with, and authorisation by, elected bodies, normally democratic but actually oligarchic in character for the most part. In the time required for information, persuasion and conviction the most favourable opportunities for action can be lost. At one time doctrinal differences, especially on the side of the consumers' co-operative movement were an almost unsurmountable obstacle to interco-operation. The European consumers' co-operative movement growing up in the late 19th and early 20th centuries had discovered the economic and financial power generated by federation. Some were inspired by the vision of Charles Gide of a consumer-dominated economic system and the example of the British wholesale societies, to believe that their proper line of development lay through manufacture towards the production of raw materials of all that their members ate, wore or required for their homes. Confrontations, like that which occurred when the Co-operative Wholesale Society (C.W.S.) attempted to establish creameries in Northern Ireland were relatively rare, but the doctrine was an inhibiting factor when the C.W.S. declined the request of the young English farmers co-operatives, inspired by the success of Plunkett and his coadjutors in Ireland, to open an agricultural

department. The agricultural co-operators realised from the first that C.W.S. with its massive purchasing power, would be able to supply their requirements much more efficiently than any agency they could establish by federation. The proceedings of joint meetings are recorded in the Co-operative Union's annual congress reports, when the writer was able to trace them to their unfruitful conclusion. Worse was to come. The farmers' co-operatives set up their own agency. Whereupon the C.W.S. opened an agricultural department. In order to comply with its rules the agricultural societies joined the C.W.S. The Agricultural Wholesale Society continued in business for several years, but in the end gave up the unequal competition. Meanwhile the idea of interco-operation had emerged on the international plane, partly as a result of the creation of the Co-operative Service at the International Labour Office (I.L.O.) by its Director, Albert Thomas, who appointed Dr. George Fauquet to lead it. In 1924 Albert Thomas presented a paper at the Ghent Congress of the International Co-operative Alliance on the relations between the different forms of co-operation. He drew attention in particular to two groups of problems, one consisting of the relations of consumers with agricultural co-operatives, the other of the relations of co-operative societies with their salaried and wage-paid employees and with organised labour. At the World Economic Congress convened by the League of Nations at Geneva in 1927, the advantages of inter-trading between agricultural and consumers' co-operatives in the distribution of foodstuffs was recognised in the report of the agricultural Commission. A recommendation was adopted in favour of appointing a joint committee to study the relevant problems. The League showing no interest in complementing the resolution, Albert Thomas took the initiative and, with the support of the International Co-operative Alliance and the International Commission of Agriculture, convened a joint committee at the I.L.O. and himself took the chair. With Dr. Fauquet as Secretary, the joint committee was responsible during the 1930's for organising some very valuable research into existing forms of interco-operation which provided examples worthy of imitation.

After the Second World War, interco-operation re-appeared at the international inter-governmental conference at Hot Springs, Va., which prepared the way for the Food and Agriculture Organization as a specialised agency of the United Nations. Here again interco-operation between agricultural and consumers co-operative movements was agreed to be necessary to the economic distribution of foodstuffs throughout the world. This was followed in due course by the grant to the International Co-operative Alliance and the International Federation of Agricultural Producers, of consultative status in Class 1 with the U.N. Economic and Social Council, the accession to the I.C.A. of many more potential agricultural co-operative federations and the creation of an auxiliary Agricultural Committee. One of this Committee's actions, when George Davidovic was the Secretary, was to organise a series of specialised commodity conferences of representatives of national co-operative producers' and consumers' movements to attempt to formulate the reasons why they did not do more business with one another.

Turning from this long historical digression back to our original question why a system which so many co-operators agree is theoretically right would apparently be so difficult to realise in practice, we may recall the turnover figures for the French co-operative movements given by M. de Vignes de Puylaroque. They suggest that the agricultural movement as a whole is overwhelmingly dependent on the private market and that the consumers' movement, if it grows to several times its present size, is unlikely to change that situation in any foreseeable future. A co-operative which adopts a policy of giving preference to co-operative markets or sources of supply must be prepared for counter moves by private trade. Successfully to deal with reprisals a co-operative needs a convinced membership, courageous leadership and the right kind of economic armament. This applies not to France particularly - it can and does happen in many countries as the Co-operative Movement continues to spread over the world.

In countries of advanced economic development agriculture and distribution were the last sections of

the economy to undergo the technical revolution which began in manufacture and transport more than two centuries ago. The agricultural revolution of the 20th century has more or less synchronised with the distribution revolution. Both have produced and are still producing effects on rural and urban society which are irreversible and destructive of old landmarks and barriers, both material and intellectual. The difficulties in the way of interco-operation between consumers and agricultural producers arise not only from contrary interests in the market but also from differing mentalities. M. de Vignes de Puylaroque points out that agricultural co-operation bears the stamp of a peasant mentality very remote from the concern of consumers. The truth of this statement is being constantly undermined by contemporary transport and communications which, on the one hand, enable people who work in towns to reside comfortably in rural villages and on the other, enable the younger generation of country folks, less in demand as land workers because of mechanisation, to earn a living in industry, commerce or public administration. Radio and television spray information and entertainment over town and country indifferently. Co-operators in all branches of the movement used to learn, and that quickly, to turn this present economic and social fluidity to the Movement's advantage.

Another difficulty arises from the difference between common and mutual interests. It is obviously easier to combine when the interests of all participants are identical, than when they are different, although complementary, but it is pure superficiality to say that interco-operation fails because consumers seek to keep prices down and producers seek to keep them up. The fundamental fact is that consumers need the products, while producers need the markets. They are indispensable to each other. It should not be difficult for co-operators who reject exploitation on principle to devise an economic strategy by which they play into each others hands. The more one studies the history of co-operative development over the world the clearer it becomes that it is a double process of expansion and integration.

The integration, however, is still mainly the co-operation of co-operatives of the same type or with identical interests. But the Movement reached the stage half a century ago when integration in the form of interco-operation became a necessity. The Movement must recognise this and act upon it, as the capitalistic world clearly has done and is doing for its own ultimate end-gain by investments. The evolution of the company form of business organisation has tended increasingly in recent years towards the formation of diversified groups of enterprises, often pluri-national in composition and in collusion when they outwardly appear to compete. They operate in the less developed regions of the world no less than in the most advanced, and their influence with governments gives rise to fears of colonialism in a new guise. The distributive revolution is led by similar large-scale organisations with networks of multiple stores and terrific bargaining power in purchasing what they want to sell. In the last thirty years they have made enormous inroads into the market-share of the small-scale retail business. Consumers' co-operation has been able to hold its ground only where leadership was on the alert and foresaw the coming emergency, and interco-operation between wholesale and retail units was close enough to carry out in time the appropriate changes of structure and strategy. Elsewhere, if consumers' co-operation has still a chance of surviving, it is with a diminished market-share and the loss of traditional social features which distinguished co-operation from private enterprise. These, it may be remarked in passing, are less prominent among the agricultural co-operative movements which devote more attention to the economic than to the social aspects of co-operation, tending to ignore the third term of Horace Plunkett's well-known slogan, 'better farming, better business, better living'. Whether they should continue to do so may be doubtful for in the battles for market share, the social attributes of co-operation at its best could prove to have a more powerful influence than the contemporary fashion of sponsorship of artistic, sporting, medical and charitable institutions and events, favoured by so many large capitalist groupings.

Now although the integration accomplished by capitalist business organisations which governments sometimes facilitate and sometimes attempt to control produced the phenomenon of the 'affluent society' in the industrial nation it does not appear to be capable of providing a basis for permanent prosperity or of preventing or curing periodic economic depression on a world scale. Nor did the governments represented at the recent Williamsburg Conference, while averting a lapse into rank protectionism, even begin to organise the international collaboration required to lift the economic system out of its continued stagnation with its accompanying bankruptcies and unemployment. How can governments' attempts to co-operate be other than half-hearted when the dominating force in their own national economies is competitive self-interest? The world is still far away from that 'international organisation of exchange' which Charles Gide and Albert Thomas hoped would supersede free trade and protection, both of which connoted economic warfare.

It is when the Co-operative Movement is considered against the background of world economic problems that the inadequacy of its present structure and activity appear, notably the deficiency of interco-operation in the co-operative sectors of the national economies. It is true, of course, that in the last generation the Movement has acquired world-wide dimensions. The International Co-operative Alliance with the 360 million individual members of its affiliated organisations has the broadest popular support of all the non-governmental bodies admitted to consultative status by the United Nations and their specialised agencies. But these millions are little more than an 'arithmetical expression', as Italy before unification was to Metternich merely a 'geographical expression'. Beatrice Webb (née Potter) in her time described the Co-operative Movement as 'loosely organised'. It still is. The I.C.A. can become more powerful and influential only in so far as its affiliated national movements consolidate their power and influence by interco-operation. They must realise in fact Dr. Fauquet's concept of the Co-operative Sector, by uniting all branches of the Movement in a primarily consultative but also representative body, though which co-operators can negotiate with governments and command the attention



of public opinion by speaking with one voice. Constant contact, mutual knowledge and the habit of consultation will enable the Movement's branches without loss of autonomy to carry out for their common benefit projects as yet beyond their reach and make greater contributions to real social progress.

The time line of the Movement's evolution runs from its local roots through regional and national to international organisation. At each stage interco-operation plays an indispensable role in the process. In recent years some national movements have shown signs of what athletes call staleness. Their reaction to new and more intensive competition has lacked vigour and speed, with regrettable, even disastrous consequences because their responsible officers could not perceive or accept the necessity of interco-operation until they had reached the brink of disaster. Now, in addition, they have to contend with economic depression and diminished purchasing power of millions of unemployed workers.

Unemployment, however, has in more than one country stimulated increased interests in the possibilities of co-operatives offering opportunities of co-operative development in new and expanding directions. These opportunities can be all the more easily seized and exploited if there is interco-operation between the old and newly-initiated movements. Even more than governmental support do the leaders of the new-wave co-operators need to draw upon the experience of the established co-operative federations and educational institutions. The average age of the membership of the new co-operatives is almost certainly below that of the older. To assist these young recruits to grow into convinced co-operators is a challenge and a golden opportunity for co-operative educators to widen the scope and raise the standards of their studies and teaching. To enable a younger generation of co-operators to visualise their own local consumers', workers', housing co-operative or credit union as a cell or a fabric that embraces the world to master co-operative business practice and penetrate to its underlying philosophy, is to inject fresh life and optimism into the Movement, as it faces the greater struggles which Walt Whitman declared come forth from every fruition of success.



# THE MIHR REPORT AND EUROPEAN CO-OPERATIVE UNITY

by

J.A.E. Morley\*

On April 13th, 1983 at Strasburg the European Parliament welcomed with very few reservations a report\*\* calling upon the institutions of the Community to acknowledge the European associations of co-operative organisations as "permanent discussion partners on all economic and social subjects". What is the significance of this report and of the resolutions to which it gave rise? As has often been pointed out, the European Parliament possesses few powers of its own, and the capacity to launch new political initiatives is not one of them. Nevertheless, since this Parliament is the only forum for the expression of public opinion in the Community, the very positive outcome of this debate in favour of co-operatives must be regarded as marking a new stage in their development, even though its long-term effects cannot as yet be fully assessed.

To see this incident in proper perspective, it will be necessary to examine, first the position of co-operatives in Europe in relation to the public authorities prior to the debate and the events which led up to it; secondly the proposals which the European Parliament was asked to consider and the view it took of them; and finally such consequences as have appeared in the six months since the debate took place.

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\* Plunkett Foundation for Co-operative Studies.

\*\*The Mihr Report drawn up on behalf of the Committee on Economic and Monetary Affairs on the Co-operatives in the European Community.

## The Position of Co-operatives in the Community, pre-Mihr

The existence of co-operatives is taken for granted in the Treaty of Rome, which mentions them at only one point, in connection with the right of establishment (Art. 58). Nor was it considered necessary to refer to co-operatives when defining the Common Agricultural Policy (Art. 38). Indeed it would have been inappropriate to do so, seeing that there are important agricultural co-operative activities - such as the supply of farm requisites, credit and insurance - which that policy does not cover.

In June 1960, at a comparatively early stage in the development of the European Economic Community, in a document concerning the working out and putting into effect of the common policy, the role of agricultural co-operatives was defined by the Commission as follows: "An effective co-operative organization can contribute in a wide sense to the improvement of the conditions of production and income, of work and of life in agriculture. By mutual co-operation in the field of supplies, processing and sales, as well as in the service sector, it is possible to improve the competitive capacity of agriculture, especially of family farming units. Co-operative development and the intervention by the right kind of co-operatives can favourably influence the vertical integration of agriculture". Such an outright declaration in favour of the co-operative principle may well have provoked a reaction from non-co-operative interests, and no further statements of this kind were issued, though over the years it became apparent what were the "right kind of co-operatives" that the Commission had in mind. They were organisations or groups with two principal characteristics: they had to be composed of producers of crops which the organisation or group was set up to handle, and the whole of the production must be sold through that body. One can search EEC legislation in vain for any provision

that the members of a body qualifying for assistance from Community funds are to have equality of votes, or share in any surplus in relation to their throughput, which are the recognised hallmarks of co-operatives in all the Member States. To that extent the legislation must be regarded as neutral although in the main, no doubt, agricultural co-operatives have benefited particularly under it.

From the earliest days of the Community agricultural co-operatives enjoyed direct access to the Commission through their central association, *Comité Général des Coopératives Agricoles (COGECA)*. The effect of the request of the European Parliament to create a permanent discussion partnership between the Commission and European associations of co-operative organisations was therefore nothing new so far as they were concerned, but it would, if fulfilled, represent a big step forward for co-operatives in the sectors which had not so far had that relationship.

During the 1970s the predominant status of agriculture in the Community was in practice somewhat weakened as, on the one hand, the proportion of the total population engaged in this sector of industry somewhat declined and, on the other hand, new problems emerged, particularly that of the economic recession. Towards the end of this decade, we find the EEC Directorate General of Employment, Social Affairs and Education embarking on a programme of research and actions on the development of the labour market, including new growth areas such as workers' co-operatives<sup>1</sup>. About the same time the moment appeared opportune for two groups of Members of the European Parliament (MEPs) to propose, in 1980, motions for two separate but related resolutions for discussion by that body; the first of these was concerned with the general situation of co-operatives in the Community while the second dealt rather with the possibility of using workers' co-operatives to

combat unemployment. Following its usual long drawn-out procedures, the European Parliament referred both resolutions to its Committee on Economic and Monetary Affairs for action, and to three other Committees, Agriculture, Legal Affairs, Social Affairs and Employment, for their opinions. Early in 1981 the Committee of Economic and Monetary Affairs appointed as its rapporteur Dr. K.H. Mihr, MEP, a Social Democrat and Trade Unionist who, it is interesting to note, adopted in his report a number of suggestions put forward in the original motions for resolutions (e.g. a single body to represent the co-operative movement at Community level; the calling of a special conference; harmonisation of national co-operative legislation; commercial preference for co-operatives; a special co-operative fund, etc) which were omitted by the Committee on Economic and Monetary Affairs when formulating its own motion for a resolution to be submitted to the European Parliament.<sup>2</sup>

### Action by the European Parliament

Even with these omissions, the motion for a resolution which the European Parliament was asked to consider was still a highly positive statement. The full text contained eight clauses which are listed below with the modifications (in brackets) introduced as a result of the debate:

1. The European Parliament takes the view that the European associations of co-operative organisations must be acknowledged by the institutions of the European Community as permanent discussion partners on all economic and social subjects (and should be; consulted more frequently in the future); the co-operative associations are themselves called upon to co-ordinate their views and put them forward collectively.

2. The European Parliament considers that the social value of co-operative economic and business activities is undisputed and that it is therefore in the interests of the Community to encourage the co-operative form of organisation where there is a prospect of its being successfully adapted to the objectives of Community policy and where it does not endanger healthy and effective (fair) competition.

3. The European Parliament recommends that the Commission should in addition investigate how the activities of manufacturing by the craft workers' co-operatives are developing and should consider what measures taken by the Community might facilitate the new establishment of such co-operatives and the conversion into co-operatives of undertakings threatened by crises.

4. The European Parliament requests the Commission to make use of the great range of experience of the co-operatives and their associations in the implementation of Community regional policy and development policy by including representatives of the co-operatives in the work in this connection, and in the preparation of individual projects.

5. The European Parliament urges the Commission also to investigate whether special programmes should be drawn up both for regions of the Community threatened by crises and for co-operative development plans in countries which are signatories to the Lomé Convention which promote the establishment of co-operatives in certain production and service sectors; in both these areas too the Commission should draw on the experience of the co-operative movement.

6. The European Parliament asks the Commission to investigate the possibilities of granting co-operatives and their associations assistance for their educational, training and promotional functions, and in addition, of making available funds for the development of small and medium-sized undertakings, including those which take the form of co-operatives (provided that co-operatives do not thereby enjoy privileged access as compared to other small and medium-sized undertakings); in the meantime it should facilitate the access of co-operatives to existing Community funds and instruments.

7. The European Parliament requests the Commission to set in motion a study to investigate co-operative structures and the conditions for the existence and working conditions of co-operative organisations in the individual Member States and to report the results of its study in this Parliament.

8. The European Parliament instructs its President to forward this resolution and the explanatory statement to the Council and the Commission of the European Communities.

A reading of these clauses suggest that workers' or, as they are called in the U.K., industrial co-operatives, were in the forefront of the minds of those who drafted this resolution in the Committee on Economic and Monetary Affairs, as they were also in the minds of most of those taking part in the Parliamentary debate. The point was strongly made that the co-operatives in question were economic associations organised on a voluntary basis.

The most keenly-awaited contribution to the debate was of course that of the representative of the European Commission. Richard Burke, the Irish Commissioner, accepting the Report on behalf of the Commission, noted the valuable contribution of co-operatives to the economic and social life in Europe. He welcomed the Report and the special significance it gave the role of co-operatives in the Community. He said that the recent trend towards an inter-sectoral grouping of co-operatives was an important step forward and provided an opportunity for a 'permanent' discussion between co-operatives and the European institutions. The Social Fund had helped co-operatives in the past and the Commission was open to further suggestions. The special needs of co-operatives for vocational training were recognised. Due to the financial limitations of the Community budget, a study on co-operatives was unlikely at present. The question of co-operative law in Member States would be looked at, and he saw the need for new legal arrangements to remove the barriers on co-operatives seeking venture capital. While the promotion of workers' co-operatives could not be a panacea for the Community's unemployment problem, it was important to revive the concepts of self-help and self-management.

### Consequence of the Debate

Only time will show how far the optimistic expressions of the European Parliament will be followed by practical results. In the meanwhile there is one area where there has already been considerable activity, which indeed began some time before the appearance of the Report, in anticipation of some of the proposals it would contain.



The first of the two resolutions which led to the production of the Mihr Report, and had the backing of an impressive number of MEPs, requested the Commission and Council:

"to encourage the setting up at Community level of a single body to represent the co-operative movement and to act as a link between the movement and the Community".

The Committee on Economic and Monetary Affairs did not go quite so far as this but resolved (and its resolution was endorsed by the European Parliament) that:

"the co-operative associations are themselves called upon to co-ordinate their views and put them forward collectively".

Further, the Commission's representative speaking in the debate went on record as welcoming the trend towards inter-sectoral grouping of co-operatives, with the opportunity that this would provide for 'permanent' discussion between co-operatives and the European institutions.

According to the Report, this desire for closer working came from the co-operatives themselves. Among the main views said to have been put forward at a meeting between the rapporteur and representatives of the different co-operative fields of activity in January 1982 was the following:

"All consider it necessary to unite more closely the co-operative forces at Community level so as to be able to speak with one voice in matters of fundamental common interest vis-à-vis the Community institutions".

Unfortunately the Report nowhere spells out precisely what these "matters of fundamental common interest" are.

It is therefore important to see what the co-operative associations themselves said, when confronted with this recommendation, and it is noteworthy that their approach to the question of closer working together was altogether more cautious and practical. In a statement issued the day before the vote was taken in the European Parliament, the spokesman for the newly

formed Co-ordinating Committee of EC Co-operative Associations warned against raising expectations which could not be fulfilled. While emphasising the common characteristics, motivation and principles of co-operatives in the European Community, and the contribution they were capable of making in each sector where they operated to its social and economic improvement, the statement made it clear that co-operatives did not constitute a homogenous movement, and firmly rejected any idea of creating a single representation of interests to replace the various associations which already existed. Equally the setting up of a contact body for co-operatives within the Commission was considered unnecessary, and likewise any proposal to standardise the different characteristics of various co-operative forms of undertakings.

None the less, certain possibilities for collaboration were envisaged by these associations, as for example the following:

- presentation and defence of the co-operative identity, possibly as the start-off for a common co-operative policy;
- joint seminars on current questions and problems subject to discussion in the EC (1983, Year of the Small and Medium Sized Enterprises);
- information and training seminars on EC policies;
- maintaining the characteristics of the co-operative enterprise in the discussions on the harmonisation of company legislation;
- participation in the discussions on the social policy at EC level;
- defence of the specific purposes of co-operative undertakings in the discussions on tax harmonisation;
- supplying the expertise and experience of co-operatives in matters relating to development aid.

These would be matters for further consultation within the new Co-ordinating Committee which had been set up not long previously with a view to increasing collaboration between co-operative associations in the European Community.

Their point of view was even more explicitly expressed by the chairman of this new grouping (Mr. Lardinois) when he spoke at its opening press conference. "For the first time" he said, "the Secretaries and Director Generals are meeting each other. We don't want to set up another large organisation but we do hope to have the various staffs at Brussels liaising. We don't know what may develop in four to five years' time. It is my own opinion that seven to eight organisations must find out if they can live together first. Later we may come to an umbrella organisation".

The seven to eight organisations to which he referred were the following:

- General Committee of Agricultural Co-operatives in the EEC (COGECA)
- European Community of Consumer Co-operatives (EUROCOOP)
- Association of European Co-operative Insurers
- European Union of Social, Mutual and Co-operative Pharmacies
- Association of Co-operative Savings and Credit Institutions of the EEC (GCEC)
- European Association of Retail-Owned Wholesalers in Foodstuffs (UGAL)
- European Committee of Workers' Productive Co-operative and Wholesale Societies and,
- a European co-operative housing association, in process of formation.

The co-operative associations mentioned above not only represent great economic influence but their members are said to employ 2.5 million people in the Community.

It seems a strange paradox that a primary reason for their forming a co-ordinating committee should have been a warning about the hazards of too close co-ordination! But this was merely a sensible precaution. One should not take too narrow a view about the possibilities which must now exist as a result of the formation of this new grouping, which did not exist before it was created. One can think of many areas where joint consultations could be productive - in the field of legislation, for example, or taxation, or finance.

Joint consultation should in turn lead to better understanding, with the possibilities of mutual support. These opportunities will undoubtedly be explored, now that there is a body to explore them. Even if the discussion of the Mihr Report by the European Parliament led to no other result than this, it must still be considered to have been fully justified.

It may be added, by way of postscript to the above, that a meeting of all sections of the U.K. co-operative movement was convened by the Co-operative Development Agency, at the request of the Society for Co-operative Studies, on September 21st, 1983. The purpose of the meeting was to consider what, if any steps should be taken, in the light of their own past history and recent events at Strasburg and elsewhere, to set up some kind of permanent forum for communication and exchange of views on matters of common concern, between the different sections. No decision was taken at the meeting but it was unanimously agreed that a case had been made out for collaboration of this kind, and that further discussions would take place, after delegates had had an opportunity of reporting back, to consider what practical arrangements could be put in hand for the future. While many factors contributed to this conclusion, an important one was undoubtedly the Mihr Report and the actions which had ensued from it. In particular it was felt to be anomalous that there should be formal consultations between co-operative associations on a European footing without similar consultations taking place at the national level.

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THE ROLE OF CO-OPERATIVES  
IN EUROPEAN AGRICULTURE \*

Michel Souplet \*\*

Translated by J.A.E. Morley.

It is from the heart of Europe that I am today addressing all farmers of Europe, both those who have delegated you to represent them here and those who can neither express themselves nor move freely. I am also addressing myself to the governments of our countries to tell them that the Europe assembled here is not the Europe of technocrats, financiers or unscrupulous businessmen; it is the real Europe, that of the multitudes of farmers who for centuries have fertilised and preserved the soil of their ancestors, who have worked it, sown and made it produce food for a large population, who have fashioned the countryside and harmoniously mastered nature and who have gradually built up its heritage and its culture. We, the farmers, are the basic source of European wealth because, without our advances in productivity, industry could not have developed. Yet, although in 1982 many of us were able to restore a situation which had been bad for years, and although there are some faint signs of economic recovery on the horizon, European agriculture has never before been in such an unfavourable situation. And we must have the courage to note and to declare that the trough of the wave has perhaps not yet been reached.

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\* Part of address at opening of 35th General Assembly of the C.E.A., 1983, printed here by permission of the General Secretary.

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What the specialists call putting the economy in order - that is, a lowering of inflation - has been achieved only at the expense of a reduction in activity - that is, an increase in unemployment - which has reached almost 10% of the workforce; this has never happened before. The result, in our countries, is reduced consumption, especially of luxury products and even of day-to-day products whose consumption is usually high in times of affluence. At the same time, under the combined effect of the recession, the drop in export earnings, the rise in world prices and the burden of debt, external markets have levelled off or are even dwindling. To maintain them, it would, in particular, be necessary to increase aid to the developing countries. But everywhere the means are lacking, governments are having to face increased budget deficits, and priority is being given to solving national problems. In a climate like this, it is clear that agriculture becomes a secondary consideration of governments, especially after a year of good harvest as in 1982.

And that is not the worst: both the public and governments in Western Europe are convinced - and this conviction has recently turned to obsession - that European agriculture is producing too much and that, to reduce production, farm prices must be lowered. They even add that a reduction in farm prices will make our products more competitive in the world market. This is forgetting that our production costs, in so far as they depend on imports to be paid for in dollars, reflect the rise of that currency. It is forgetting that agricultural structures, conditions of production and the economic environment in the major producing and exporting countries are totally different from those found in Europe. It is forgetting that world prices are only residual prices, quite different from those actually obtained by producers in the countries with which we are contrasted. This would mean accepting world prices as a reference, and this we absolutely refuse; and it would mean failure to make the essential effort to raise and regulate these world prices.

Finally, and in particular, it is forgetting an essential fact of European agriculture; it is based on a structure which gives it a family character; and this is a result firstly, of history and secondly, of a political choice made during the post war years. It is this choice which has justified the supporting of prices and a certain measure of protection, such as they result from the green laws or parity laws in all our countries. As long as this choice of society, this choice of civilisation remains a fundamental fact of the economic and social politics of our countries, we must accept all the consequences. And even if we wanted to change course, it would not be possible in the short term to bring into competition two forms of enterprise, two types of agriculture based for so long on different choices; and the farmers in our countries would not be able to understand that restrictions were being imposed on their capacity to produce, without competing products, wherever they may come from, being treated in the same way. The right to produce cannot be reserved for a few privileged people.

We are convinced that, in some sectors at least, the present circumstances call for measures to control production: some countries in Europe have already done this. However, the acceptance by farmers of discipline or constraints capable of affecting prices or production, or export conditions, presupposes a dynamic attitude to agricultural policy and participation by producers in defining and managing that policy.

Let us forcibly restate our refusal of a purely budgetary concept of agricultural policy, which would lead to a severe decline in agricultural activity. Our governments must consider the contribution of European agriculture to the economy, the export capacity of European agriculture and its possible contribution to feeding the world as positive factors. Effort and imagination are required to safeguard the invaluable capital which a productive European agriculture represents.

However, I warn the governments of the consequences of decisions which they are preparing to make: they must carefully weigh the effect of these measures on agricultural incomes and consequently on activity and employment in the upstream and downstream sectors. The stake is much more than agriculture; to win it, it will not be enough to adopt a few charitable measures in favour of low agricultural incomes.

We must also think about the attitude of young farmers: in order to be constantly up-to-date and able to make use of new techniques, agriculture needs young people. How can they be expected to take up an occupation allowing them neither hope nor ambition?

This situation is all the more alarming for the leaders of our agricultural organisations because the farmers are not always aware of it. It is therefore the duty of those in charge to explain it clearly, without undue pessimism, but very frankly, so as to prevent violent reactions which would reflect on our organisation, and also so as to enable the farmers, with the help of our organisation, to prepare to move in new directions.

Obviously, all I have just said regarding agriculture also concerns forestry, because in Europe the two activities closely overlap. However, our forestry industries are also faced by particular difficulties: the situation is worsened by a pricing policy reflecting constantly rising costs.



We are witnessing the complete collapse of our forestry/timber industry - in one third of the land of Europe. There is a serious risk of seeing the decline in upkeep of investments and reafforestation added to the truly devastating damage done by atmospheric pollution. As our Forestry Commission will devote the main part of its work to this problem I will limit my comments here, which are made specifically to draw the attention of governments and public opinion to the necessity for immediate action to be taken to ensure the conservation of our woods and forests which are an essential part of our European heritage.

### The Fundamental Role of Co-operatives and their Particular Problems.

In this difficult context which I have just described, co-operatives cannot perform miracles, but co-operation remains an economic tool indispensable to the service of man, served by man, and close to man, which enables him to have a share in the economic life of his country, and his world.

I will distinguish five principal objectives of future action by co-operatives,

- control of costs
- control of markets
- consolidation of own funds
- access to research and innovation, and
- training men.

#### Control of Costs.

The first objective is to control the costs of the main factors of production. Here, we have seen a rallying of forces by large co-operative enterprises. Thus, for example, a multinational co-operative company ACTI-INTRADE, is playing an increasingly significant part in the world market for cereals and fodder products; it is securing favourable conditions of supply for the major importing co-operative groups. Likewise FERTRADE, a group of co-operatives formed in 1982 with the aim of gaining control of part of the fertilizer import trade, enables them to

negotiate effectively with the principal industrial manufacturers. Also in the area of animal feed co-operatives continue to expand and now hold in Europe the largest share of the market. Finally, for other supply products, and especially machines, tools, etc., the role of co-operatives is fundamental. The establishment of sales networks and stores well suited to rural needs is not only a factor in lowering distribution costs, but also a significant factor in stimulating the economy and providing employment in rural regions.

### Control of Markets

As regards the marketing of agricultural products, no genuine co-ordination of the strategy of co-operatives has yet been possible at international level, even within the European Economic Community, as a basis for concerted offers to the Third World, in particular to the state-trading countries. Much still remains to be done in this area.

However, in every country, there is now a high degree of concentration as regards supplies of fresh and processed food products, for both the home and the foreign market. This is particularly marked in the dairy sector, but it is also becoming true in the case of meat and cereals.

In general, agricultural co-operatives are continuing to expand their market share for the collection, sale and processing of agricultural products which is proof of their vitality, but at the same time may also mean, in some cases, that the sector of activity in which they are operating is relatively unprofitable and that private capital is tending to move away from these sectors, especially from wholesale trade and first-stage processing. This is not without its problems; for while co-operatives are organisations of farmers, formed for their benefit, they also have to compete on the market.

## Consolidation of Own Funds

One of the most serious problems is the difficulty experienced by co-operatives in consolidating their own funds and in persuading their members to subscribe to company capital in proportions matching the growth in investments. This question of own funds is one of the most serious which co-operatives have to face. They are responding in various ways: by finding support from co-operative credit institutions, in some cases financial aid provided by the State or even by the funds of the European Economic Community; but essentially co-operatives' own funds must come from members' share subscriptions and the operating surpluses earned by the co-operatives. The priority requirement is good management and optimisation of results; it is the first necessity if co-operatives are to develop and satisfy their members' needs.

## Access to Research and Innovation

One of our essential tasks in the immediate future is to enable co-operatives to profit from research findings and technical innovations. In the field of research, it is absolutely vital for co-operatives and farmers that plant genetics, in particular, should not totally escape from the agricultural world itself. It is disquieting in this respect to see the predominant position now being taken by the major international companies of the chemical industry in the control of plant varieties and hybrid production. In some countries and in particular in France and the Netherlands, co-operatives in this sector have fortunately attained a strong position. But it is vital that agricultural organisations should give this problem the attention it deserves, in order to guarantee the independence and freedom of choice of farmers.

## Training

Good management requires that good managers should be recruited and given appropriate training so that

they fully understand the special character of the co-operative enterprise. For this purpose, European co-operative organisations have training centres and schools, which are also open to the rest of the world and receive a large number of trainees from the developing countries. But the number of these centres is still inadequate, and the effects already made in this area have to be followed up. I must insist on the special effort which co-operatives must make in the training of their elected representatives. It is clear that farmers have ever-growing difficulties in paying people to replace them on their holdings when they give up their time in order to take on heavier responsibilities towards their co-operatives. Extra efforts are called for by the co-operatives, therefore, so as to undertake the training of elected members in order that these may be able to carry on their enterprise in accordance with world-wide economic development. At the same time, the experience acquired by European co-operatives in this area must be made available to Third World farmers so as to help them in forming free co-operatives and associations, which alone will enable them to cope with their immense problems.

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These are the few points which your Chairman wishes to make in order to highlight the essential role of co-operatives in the future of European agriculture. This role affects the world of agriculture in that co-operation is fundamental, an act of solidarity, a consequence of the desire of small communities to aid one another. It is of value as an example in the training of other self-help communities, and brings these communities closer together - which, in time, is the objective of the European Confederation of Agriculture itself. Agriculture needs the support of public opinion, today more so than yesterday, because there are fewer of us and because the town dwellers, after two urban generations, are losing their roots. We must therefore seek out opportunities to open the doors of our

farms and our organisations to the public, and deliberately make use of the media to make known our living and working conditions, our achievements, our difficulties and our hopes: the better we are known, the better we will be understood.



## BASIC RULES OF AGRICULTURAL CO-OPERATIVES

by

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Translated by J.A.E. Morley.

As part of an enquiry organised within the Special Committee of the European Confederation of Agriculture dealing with agricultural co-operative law, and using information supplied by the following countries - Austria, Belgium, Denmark, France, Germany, Great Britain, Italy, Netherlands, Spain, Sweden and Switzerland - an analytical and comparative statement of co-operative law in these countries is being prepared, covering the following points in particular:

- rules as to how members join, are controlled by, leave or are expelled from a co-operative;
- whether or not they are required to participate financially, and the extent of their liability;
- rules governing members' trading activity within the co-operative;
- the operation of agricultural co-operatives, policy making, management, general meetings, financial audit;
- the problem of division of the reserves, during the lifetime of the co-operative or on its liquidation.

The paper that follows is not the final version as not all the countries concerned have yet contributed to the discussions. It is therefore to be considered as a personal article and not as the official paper of the Special Committee.

The idea was not to make a detailed and complete study of the different laws but only to find out what might be the basic common rules for defining agricultural co-operatives, to establish the fact that in 1983, despite the changes they have had

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to undergo by reason of economic circumstances, agricultural co-operatives have been able to preserve the basic and special characteristics which make them organisations with a mutualist character in the service of farmers.

The difficulty of this research lay in the fact that in most of the countries investigated, with the possible exception of France, the law does not define an agricultural co-operative; or state its essential character. Furthermore, in a number of the countries investigated, there is no special and precise law for agricultural co-operatives; it is necessary to refer to rules, sometimes models.

For instance, Art.1 of the French Ordinance of 26 September 1967 as amended by the law of 27 June 1972 states that: "Associations are only entitled to the description and designation of co-operative when their rules provide

- a) The obligation for each member to use the association's services for a defined period and, correspondingly, to subscribe a capital sum determined by this commitment;
- b) The obligation for the association to do business only with its members;
- c) The limited interest of 6% on capital subscribed by co-operative members;
- d) The division of annual surpluses among members proportionately to their business with the co-operative during the financial year;
- e) The repayment of shares at their nominal value and, on a liquidation, transfer of the net surplus to other co-operatives or works of agricultural interest;
- f) The legal right of members to vote at general meetings."

The Article continues as follows:

"Nevertheless, as regards b) e) and f) above members may, either when the co-operative is formed, or during its existence, exercise the options open to them under Articles 4,6,7 and 9 below, and by Article 2 of the Law of 27 June 1972".



This means that b), e) and f) are not 'fundamental' since derogations from them are permitted within certain conditions and limits.

In addition, the analysis contained in the first part of the document (not reproduced here) brings out important differences in the internal operations of agricultural co-operatives often resulting from the basic laws of association in these countries.

However, it is possible to assert that these differences, despite their apparent importance, are not fundamental, and rules can be identified which the agricultural co-operatives in the different countries have in common. These rules may be categorised under four main headings:

1. Rules relating to the 'open door', or to the variable and unrestricted number of members (covering admission, retirement, qualifications).
2. Obligation to have economic and in some cases financial links between the co-operative and the members.
3. Priority to the idea of service to members over that to the community in general.
4. Democratic control by the members exercised without charge.

These four main lines of regulation will be followed in investigating, on the basis of an analysis made of the replies, whether the above rules are to be regarded as the 'fundamental rules' of agricultural co-operatives.

First Rule *Freedom of the co-operative constitution, freedom to belong or not to belong to a co-operative, freedom to withdraw from it; the importance attached to the member as an individual.* These three different points remain essential in the legislation examined.

The constitution of agricultural co-operatives is absolutely free, apart from certain regulatory controls and formalities. In any case, agricultural co-operatives are not state organisations or formed under administrative law.

There is complete freedom to belong to an agricultural co-operative, subject to the qualification that persons must be able to become members by reason of their professional activities. Agricultural

co-operatives have an economic function (but in some countries, such as Austria and Germany, anyone, even non-farmers, may join an agricultural co-operative). There may also be a qualification relating to conditions of admission to membership.

Equally there is freedom not to join a co-operative, with some exceptions in certain countries (France, Germany, Switzerland) where, in certain conditions, the role of co-operator is transferred to an heir or other successor taking over the farm; co-operatives then become less associations of persons and more farm groupings. The farm holding, with the production commitments attached to it, e.g. milk, sugarbeet, ranks in importance above the member of the association as a person. Here too one sees the predominance of the economic aspect.

Freedom to withdraw is respected in all the legislation examined, and is set down as a principle (except perhaps in Italy), but is subject to regulation; certain procedures must be followed and above all notice must be given in respect of undertakings of business activity entered into for a period. This regulation has economic justifications, e.g. maintenance of smooth running of the co-operative, use of its processing facilities, consideration of commercial contracts etc.

Finally, expulsion too is subject to regulation, having regard to the personal importance of members of a co-operative, which is an association of persons.

Second Rule *Reciprocal business commitments and financial participation.* Every co-operative member has an obligation to use the services of the co-operative for a stated period and, correspondingly, to subscribe capital in respect of this undertaking. The co-operative on the other hand has an obligation to provide the services required by the member, and to do business only with shareholding members. Only co-operators having a business activity may become members.

a) It is virtually only in France that one still finds as a basic rule the obligation on the co-operative only to do business with members (the exclusivity rule). Even there, certain co-operatives may be allowed exceptions from this rule. But, in all the countries investigated,

operations with third parties who are not co-operators are regulated and limited in extent, except in Belgium, Denmark, Sweden and, it would seem, in Spain. However, the co-operative activity must be exercised 'principally' with the members and in their interests; in any event, the co-operative must provide members with the services required by them if covered by the Rules, e.g. requisites, sale of produce etc.

b) It is again only in France that subscription for shares is, expressly by law, confined to members who actively trade with the co-operative. But even there, the possibility exists for agricultural co-operatives to create a body of 'non-associated co-operators', that is to say inactive shareholders.

Under certain legislation, in Denmark, Netherlands, Switzerland, co-operatives can be established without a share capital. In such cases membership entitlement rests simply on joining or being included in a list of members; sometimes also on payment of a subscription.

In general, excepting the case of co-operatives without share capital, capital participation is an essential condition of membership. And those people are considered to be members who have an active business relationship.

c) Indeed, the obligation on every member of an agricultural co-operative to have such a relationship, though expressly provided by law only in France and in the legal definition of the co-operative's objects - pursuit of the economic interests of its members etc. This obligation is commonly spelt out in the co-operative's rules, or, in some cases, in model rules.

d) The undertaking by each member to utilise the services of the co-operative should then be considered to be a fundamental rule, and the duration of this undertaking will be fixed by the rules, as also the nature and extent of the undertaking.

e) However, it is only in France that a correlation between business activities and shares to be held is laid down by law as an obligatory provision in the rules. In many countries, a similar provision is found in the rules; in the Netherlands, the amount

of the shareholding determines the obligation and the right to deliver produce to the co-operative. In all cases, even where there is no correlation, there is still a determination, on the one side, of business activity, on the other side, of a minimum subscription of share capital.

Despite the differing procedures in the application of this second rule concerning members' participation at the business and financial levels, it is clear that an agricultural co-operative is in no way to be regarded as an association of cultural, philosophical or social type, that it has an economic role, that it is a form of business, and that it is a private business which, by adding together the individual efforts of its co-operative members has as its object the reinforcement of farm holdings and extending their effectiveness in the economic and commercial sphere.

Third Rule *Predominance of the concept of service to members, and subjection of the capital aspects to this concept.*

In all the legislation studied, the definition of the general aim of co-operatives is to further the economic interests of the members, having regard to their overall economic interests. It is not, as in capitalist associations, the pursuit of profit for the co-operative as an association. Only in Belgium is there no mention of this general aim in the legislation.

This non-supremacy of share capital, its subservience to the concept of service to members, has normally the following consequences:

a) The subscription of shares by a co-operator, where there is provision for this, is only the consequence of the economic purposes which he intends to achieve by means of the co-operative, and not his purpose in joining it, as would be the case in the purchase of shares in a public company. Subscription of shares is therefore a means and not an end. Nevertheless, shares are often an indispensable means of financing a co-operative, for which reason shareholding is normally obligatory and the rules provide for its minimum amount.

b) Interest is not always paid on shares taken up (Austria, Denmark). In all cases, interest is only

paid if there is a surplus from which to pay it. Where interest is paid, it is usually limited to a low rate, most often 6%, though in Sweden, seemingly, the rate is currently 15%.

c) The surplus at the end of the financial year, after payment of any interest, and after constitution of reserves, is, in principle, distributed to the co-operators proportionately to the business done by each of them. But this is not laid down as a fundamental rule in all countries. In Austria and Denmark, there is no firm guidance as to the returns to be made.

This does not alter the fact that if there is a favourable balance, which the co-operative aims to achieve, this returns to the members, who decide whether to use it in their common interest - absorbing losses, investments, reserves, etc - by a process which expresses the common economic bond between them.

d) Votes in General Meetings are not proportionate to shares held, as would be the case in capital-based associations, but may be proportionate to business activity, if any provision is made for weighted voting.

For second tier co-operatives, and even for primary co-operatives in some countries, Austria, Belgium, Denmark, Netherlands, the number of votes cast at General Meetings may legitimately relate to the number of shares subscribed by each co-operator.

e) The member's liability does not have to be determined by the number of shares he has taken up, and obviously cannot be where the legislation does not provide for a share capital; it may be unlimited. More often, however, it is limited, either to the amount of the shares, or to a multiple of that amount.

f) Another principle which distinguishes agricultural co-operatives from those associations having a capitalist form is that of repaying shares at their nominal value, and in cases of liquidation, the transfer of the net surplus, not to the co-operators currently in membership, but to works of general agricultural concern.

But such rules are far from being generally applied in the majority of the legislations studied; rules may authorise other arrangements. It is often possible to repay shares after taking into account their balance sheet value, which would, in some cases, include an element of reserves in the amount due to be divided and, in liquidations, to divide the net surplus among the co-operative members, though even then certain inalienable reserves may be excluded. It may also be noted that in some countries the distribution on liquidation can be made on the basis of the trade done by the members at the date of the liquidation and not in proportion to the shares held by them.

From an examination of this third rule one may conclude, as far as economic considerations go, that the co-operative form of private business has a purpose very different from other businesses in this category. Its purpose is not, in fact, to make profits on its capital, for the benefit of the organisation itself, but to achieve the most satisfactory result for the farms concerned with it, and thus for the members themselves.

Fourth Rule *Democratic management freely contributed; the rule 'one man, one vote'; the rule of freely-provided service in the co-operative.*

a) The co-operative principle is equality of voting rights for each co-operator at General Meetings, which is contrary to that of capitalist associations or public companies, where the rule is one vote per share held. In practice, however, this rule of equality of right is applied more and more rarely.

On the one hand, particularly in large co-operatives, most of the members do not vote directly at General Meetings, but are represented by delegates chosen at preliminary meetings, usually not mandated; this is a two-tier system.

On the other hand, in a number of countries, systems of plural or weighted voting are permitted, the weighting being more usually dependent on the amount of business done rather than on the number of shares held. But in Austria, Belgium, Denmark, Netherlands, different criteria are available, including weighting by the number of shares held.

b) Committees of management are elected by the General Meeting, i.e. by members, though in certain cases the co-operators may appoint non-members to manage. Two types of legislation may be distinguished:

- those in which management is entrusted to a Board of Directors, the members of which are appointed by the General Meeting, in general from among themselves. However, in certain countries - Belgium, Denmark, Netherlands, Switzerland - those attending the General Meeting are free to appoint members of the Board either from their own number or from outside. In certain other countries, salaried staff appointments to the Board are or may be envisaged.

- those in which one finds a Supervisory Council and a Management body; in such cases the persons responsible for management, appointed for the purpose by the General Meeting, are often non-member salaried staff. The role of members in management is then reduced to one of supervision (Supervisory Council). In some countries the General Meeting does not directly appoint members of the Management body, but only those of the Supervisory Council.

c) The question of remuneration for members appointed to the body responsible for carrying on the management of the co-operative was not expressly examined in the questionnaire. In some of the replies however it was indicated that they could be remunerated, as in Germany for example. In any case, where members are nominated to a Management body, they are entitled to receive indemnities or salaries, for they then have a management function. Where there is a Board of Directors, matters may be arranged differently.

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Following this investigation of the guiding rules which the various legislations have in common, one may attempt a definition of an agricultural co-operative and draw up a list of the rules to be regarded as fundamental.

Proposed definition It appears that an agricultural co-operative is an organisation of private law, established by farmers, in which the freedom of members to join and to leave are essential elements. By the concerted efforts of its member co-operators,

it seeks to fortify their individual farm holdings and to provide them with an extension at the economic and commercial level. But it has a role different from that of other private organisations in that it is not concerned with the return on capital, as such, but on an overall result which can be used by the farms connected with it, and thus by the members, who are the co-operators, and who are responsible for the conduct of the co-operative, to their best advantage.

Fundamental Rules These appear to be as follows:

1. *'Open door' principle: freedom to join, not to join, to withdraw.*

However these freedoms may be modified because of certain economic necessities, which have to be accepted; the farm may have to be of a certain size and to be able to achieve a standard of quality as to the type of business to be done with the co-operative; in case of withdrawal certain safeguards may be demanded.

2. *Obligation on members to use the co-operative's services, an obligation evidenced by a contract for a fixed period.*

This indeed seems to be a fundamental rule, having regard to legal definitions of the objects of an agricultural co-operative.

3. *Realisation of the economic interest of the group via that of the individual.*

a) The rule of exclusivity may cease to be applied or may be waived, in the interests of the members, and the co-operative may do business with third parties. All co-operative members should however use its services entering into agreements to do so, because that too is in their common interest.

b) Normally all the members, and only they, should participate in the share capital (if any) of the co-operative, because this too is in their common interest.

c) The economic interest of the group does not embrace any profit for the association, as such; this too must be regarded as a fundamental rule and has as consequences, limited interest on shares, optimum prices for members (without any element of speculation), division of surpluses in accordance with business done.



The rule of repayment of shares at nominal value and the rule of non-division of the net surplus to co-operators on liquidation are not to be regarded as fundamental.

The rule from which all others flow seems to be that the co-operative should seek its members' (professional) interests, and that they in turn should enter into undertakings in regard to the co-operative; this is the notion of solidarity and mutuality.



# MARKETING BOARDS IN THE UNITED KINGDOM\*

by

E.H. Churcher \*\*

## Genesis of the Boards

The 1920's was a difficult decade for British agriculture. The market was unprotected and there was an ever-increasing flow of imports which reduced returns to domestic producers. With the onset of the international depression in 1929, difficulties turned into crisis. Imports flooded in, prices collapsed and agriculture was plunged into a deep recession.

Marketing had for long been a major weakness of British agriculture. Producer co-operatives were relatively few in most sectors with the result that products were all too often not adapted to buyers' requirements, were poorly graded and badly presented; distribution margins were large. The bargaining strength of buyers was growing as food processing began to be concentrated into the hands of a few large companies. When the full force of the depression hit the industry, many co-operatives collapsed as producers sought to get better returns by selling independently. This was the situation in which the first legislation permitting the establishment of marketing boards was introduced.

## Legal Basis

The objective of the first Marketing Act, which came into operation in 1931, was to raise returns to producers by improving the marketing of domestic products. The Act was a failure; it was applied to only one product - hops - for which there had been a

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\*\* Milk Marketing Board for England and Wales.

strong producer co-operative until the late 1920's. Producers of other commodities took the view that the benefits of reorganised marketing would be slow to accrue and that marketing boards could therefore do little to solve their immediate problems. To overcome this problem, a second Act was passed in 1933. The novel feature of this was that it offered the possibility of control of imports (by government not by boards) for products covered by a marketing scheme;\* it also made explicit the powers of marketing boards to control the volume of domestic production. Thus it put the boards into the context of supply planning for both domestic and imported products, though this concept was not pursued to a significant extent.

The 1933 Act led to the creation of a number of marketing boards both immediately and in the post-war era. Subsequent legislation has maintained the basic concept while changing its detailed application. Furthermore, for milk, the marketing schemes that are operated by the Milk Marketing Boards have been adapted to conform to the requirements of Community regulations on the market organisation for milk and milk products. The present legal bases for marketing boards are:

- Agricultural Marketing Act, 1958 - this applies to the United Kingdom or any part of it but excludes boards that operate only in Northern Ireland.
- The Agricultural Marketing (Northern Ireland) Order 1982. This applies to boards operating only in Northern Ireland.
- Council Regulations (EEC) No 1422/78, which applies only to Milk Marketing Boards.

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\* 'Marketing scheme' is the basic legal concept; the 'board' is the body set up to administer the scheme.

## Description of Marketing Schemes

The main features of marketing schemes are:

- they are administered by boards consisting mainly of producers elected by producers. On each board there is a small number of 'appointed' members to provide the board with a diversity of experience and skill that the producer members may lack; it must be emphasised that these members are not government representatives and do not report to the government;
- all producers, unless specifically exempted, are subject to the marketing disciplines introduced by the boards;
- to the extent that the operations of a board affect non-producers (eg merchants) their interests are protected;
- the operations of the boards in so far as they affect consumers are regularly reviewed by Consumers' Committees established under the Marketing Act;
- complaints against the boards can be referred to a Committee of Investigation and in the light of its report boards may be required to act (or not to act) in certain ways. Alternatively, a marketing scheme may be amended or revoked.

The powers of boards are therefore subject to a number of checks and balances which ensure that they act in the public interest and cannot ignore the legitimate interests of other parties.

The principle powers that a board may be given include:

- to buy, market and promote the demand for the product concerned together with certain commodities that are made from it (for example, Milk Boards may make all the commonly understood dairy products);
- to regulate supplies to meet demand;
- to regulate the sale of the product;
- to provide certain equipment and services to producers;

- to encourage, promote or conduct agricultural co-operation, research and education.

A broad distinction can be drawn between boards with trading powers and those with regulatory powers. The Milk and Wool Boards, for example, exercise full trading powers in that they buy all the commodity (with specified exceptions) and resell it. The Potato Board, by contrast, uses principally regulatory powers but does not acquire all the crop from producers (though it has trading powers and uses them in certain circumstances). None of the boards has powers to control imports, or unilaterally to determine selling prices at any level.

### Introduction and Revocation of Schemes

The normal procedure for the introduction of a marketing scheme is as follows:

- the scheme is submitted to the Minister of Agriculture by producers' representatives;
- the scheme is published and objectors given the opportunity to register their objections;
- if an objection is not 'frivolous' and the scheme is not amended to take account of it, a public inquiry is held on the scheme;
- the Minister may modify the scheme in the light of the report of the public inquiry or any other representations made to him but only if the modifications are acceptable to more than half the persons who submitted the scheme; if they are not acceptable, the proposal for the scheme is dropped;
- if the modifications are acceptable, the Minister may present the scheme to each House of Parliament;
- if approved by both Houses of Parliament, the scheme is put to a vote of the producers concerned. It becomes operative only if it receives a majority of not less than two-thirds of the producers voting who between them are capable of producing at least two thirds of the product in question. Furthermore, at least half the producers must participate in the poll.

The provisions for Northern Ireland are different in detail, though not in principle. Finally, under the terms of Council Regulation (EEC) No. 1421/78, the continued existence of the Milk Marketing Boards required support of at least 80 per cent of producers in the areas concerned who between them were responsible for at least 50 per cent of the milk produced in the area.

Just as boards require the support of a substantial majority of producers to be established, so they must retain the support of producers if they are to continue in existence. To ensure this, a number of producers specified in a scheme (in the case of the Milk Marketing Boards 1 per cent or at least 10) may demand a poll to revoke a scheme at specified intervals (5 years for the Milk Marketing Boards). If the demand for revocation is supported by more than half the producers voting and they control more than half the 'production capacity' of the industry, the scheme must be revoked\*. The Tomato and Cucumber Board came to an end as the result of a producer poll thus showing that this provision is a real safeguard of producers' interests.

In certain circumstances, the Minister with the agreement of both Houses of Parliament may revoke a scheme. It was in this way that the Egg Marketing Board as well as the Pigs and Bacon Boards in Great Britain and the Seed Potato Board in Northern Ireland were abolished.

### Penalties and Sanctions

All marketing schemes contain a provision that every producer shall be registered with the board or specifically exempt from registration. Anyone else who sells the product in question commits an offence. This provision is enforced by the civil authorities.

The enforcement of the rules imposed by a board is the responsibility of the board itself. Every board is required to establish a 'Disciplinary Committee', the Chairman of which is an independent lawyer with some years' experience. Hearings of the Committee

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\* The milk boards must retain the support specified in the paragraph above.

are held in public and a producer who is alleged to have committed a breach of the rules is entitled to be legally represented. If the Committee decides that a breach has been committed, it may impose penalties upon a producer up to a maximum amount laid down in the scheme. There is provision for appeal against the decision of the Committee. Legally, a penalty is a debt due to a board; should a producer fail to pay it, a board seeks its recovery through the Courts.

### Application of Legislation

In principle, there may be boards for any agricultural or horticultural product, any article of food or drink wholly or partly manufactured or derived from any such product, for fleeces and skins of animals.

Geographically, boards may exist in all or any part of the United Kingdom. The marketing boards that now exist, or have existed, together with the dates of establishment and, where applicable, dates of revocation are as follows:

#### Existing Boards

Milk:	England and Wales	1933	
	Scottish	1933	
	Aberdeen and District	1934	
	North of Scotland	1934	
	Northern Ireland	1955	
Pigs:	Northern Ireland	1933	('marketing service scheme' being drawn up)
Potato:	Great Britain (ie England, Wales and Scotland)	1934	(revised 1955)
Seed potato:	Northern Ireland	1961	(in process of being wound up)
Wool:	United Kingdom	1950	

#### Past Boards

Hops:	England	1932-1982	
Eggs:	United Kingdom	1956-1971	
Pigs:	Great Britain	1933-1957	(Powers suspended 1939)
Bacon:	Great Britain	1933-1957	(Powers suspended 1939)
Tomato & Cucumber:	Great Britain	1950-1964	



Apart from the above schemes, a number of others have been proposed over the years but, for one reason or another, have not been established.

With the exception of the short-lived Bacon Board, all the boards that have existed so far have covered primary agricultural products; the members have therefore been farmers.

The measure of support commanded by the existing marketing boards can be demonstrated by the outcome of the producer polls. The proportion of producers supporting the boards are shown below (in all cases, the support in terms of 'production capacity' was similar to the proportion of producers).

Potato Marketing Board	90% of producers voting
Wool Marketing Board	94% of producers voting
Milk Marketing Boards (EEC polls)	
England and Wales	97% of all producers
Scottish	98% of all producers
Aberdeen and District	99% of all producers
North of Scotland	100% of all producers
Northern Ireland	93% of all producers

### Effects of the Implementation of the Instruments

#### a) On Producers

The primary benefit of existing marketing boards for producers is the assurance of a market for their products. (For milk and wool, this extends to individual producers; for potatoes, the assurance does not apply to individual producers but to the market as a whole). Secondly, there is a wide range of marketing benefits to producers. Boards have, for example, reduced marketing costs by rationalising the handling of the product and improved returns by improving grading and presentation of the product.

The Milk Boards, but not other boards, are directly involved in the negotiation of prices at which raw milk is sold and thus give producers countervailing powers against the buyers, many of whom are large and often multinational organisations.

All the boards promote the demand for their product by advertising and other marketing techniques. They also provide producers with services of many kinds to assist them to improve their efficiency or the quality of their produce.

It is impossible to assess these benefits to producers in financial terms. All one can say is that the support given to boards by producers is evidence of the value they attach to them.

#### b) On Other Organisations or Undertakings

The main impact of boards has been on existing buyers of the product from producers. This has taken a number of different forms. For milk, buyers who previously negotiated directly with producers must now negotiate with the boards, though the law ensures that they do so on equal terms. Nevertheless, the bargaining power of producers has been strengthened by the existence of the boards. For wool, merchants are licensed by the board and act as its agents, though there is statutory machinery to ensure that they are fairly paid for the services they perform. For potatoes, merchants require licences which are issued only to those who are sound financially, have trading experience and are regular traders in potatoes. As in other schemes, the potato scheme provides statutory protection for merchants.

The effect of the boards on producer co-operatives has varied from product to product. For both wool and potatoes, producers may sell through co-operatives provided the co-operatives are licensed by the boards to act as merchants. In fact, for wool, about 30 per cent of the clip is handled by co-operatives and another 50 per cent by merchants in which co-operatives have a shareholding. For potatoes, about 11 per cent of growers are members of co-operatives and the latter handle a somewhat larger, and increasing, proportion of the crop. Given the general level of development of co-operatives in British agriculture, it is apparent that these marketing boards have not stunted the growth of co-operatives.

For milk, the picture is more mixed. In England and Wales, there were a few co-operatives when the board was created, some of which still exist. They are treated by the board on an equal basis to other buyers of milk (the Board is not permitted to treat them more favourably than others) though their operations are completely under the control of their producer members. However, the board provides special facilities for a number of producers who make cheese on their farms and market it on a co-operative basis. In one Scottish board area, the marketing scheme was promoted by a producer co-operative while, in another, the scheme was based largely on a producer co-operative.

Northern Ireland is the only part of the United Kingdom in which milk co-operatives are now a major force. They handle about a third of the milk supply in the region; the board uses a further fifth in its own factories, with the balance being bought by private organisations. The importance of the co-operatives is recognised by the existence of a special Consultative Committee made up of representatives of the board and the co-operatives; this is required by the marketing scheme. Reconciling the obligation on the board to market milk efficiently with the desire of co-operatives to have a direct relationship with producers has been the source of some problems. For a number of years, the board and the co-operatives have sought a solution to these by way of integrating the board's creameries with the co-operative creameries. In particular, during the past two years, there has been an intensive study under the guidance of a team of distinguished consultants experienced in different aspects of the subject. Although this has not produced solutions that are radically different from those arrived at earlier, it has filled in the vital details and given confidence that the objective is worth attaining and that mutually satisfactory mechanisms can be found if the willingness to do so exists all round. It is therefore hoped that before long the attainment of the long-sought goal of a fully co-ordinated producer-owned processing sector involving both the board's factories and some or all of the producer co-operatives will be in sight.

### c) On Consumers

Consumers (including industrial users) have derived substantial benefits from the activities of the boards principally in terms of the assurance of supplies and the improvement in quality of the product. The milk boards, for example, have the responsibility of ensuring that milk is-always available on demand by dairies and thus are essential to the maintenance of daily delivery of fresh milk to consumers. The potato board has ensured that, except in years of extreme weather conditions, there have been ample supplies to meet the requirements of the domestic market. Quality has been improved by grading schemes. The consumer has had to pay a modest cost for these benefits. The milk boards receive a higher price for milk used for liquid consumption than for other uses; this must be negotiated with buyers in the context of a maximum price fixed by the government somewhere in the distribution chain. The potato board has powers to maintain the market in years of unexpectedly heavy crops and, to this extent, consumers do not benefit as much as they would otherwise do in years of surplus. As mentioned earlier, there is a Consumer Committee charged with the responsibility of reviewing the operations of boards from the point of view of consumers.

### d) and e) On Member States and Regions

In these respects the effects of boards are indirect and remote. There is clearly a national benefit from the improvements in production and marketing brought about by the boards while the increase in producer incomes from such improvements may be important to the economy of some regions.

### f) At Community Level

This is probably the best point at which to discuss the compatibility of marketing boards with the Treaty of Rome and the market organisation regulations. The Commission contended that certain features of marketing schemes were contrary to the market organisation regulations. This view was upheld by the European Court in a case concerning the Northern Ireland Pigs Marketing Board. As a result, that board is being wound up and the Hops Board has been wound up. However, in the case of the milk boards, the British government established that the milk market in the United Kingdom had certain characteristics which distinguished it fundamentally from the market in other Member States.

As a result, the market organisation regulation was changed to permit the existence of organisations like the marketing boards in specified circumstances.

However, under the terms of Regulation 1421/78, such organisations are subject to special rules designed to ensure that:

- the general principles of the Treaty are respected in particular as regards the free movement of goods;
- there is no discrimination among producers or buyers of milk;
- competition is not affected more than is absolutely necessary;
- the efficient functioning of the market in milk and milk products is not jeopardised.

In detail, the main legal changes (specified in Regulations 1421/78 and 1422/78) were:

- producers are permitted to sell milk in certain cases to buyers other than the boards;
- the boards are required to place their commercial activities under a separate system of financial management and administration and to treat them on an equal footing with other independent undertakings; profits to be kept to a minimum;
- the prices at which boards sell milk must not be such that the price of British dairy products in the domestic market is lower than the cheapest products imported from any other Member State;
- all prices for milk charged by the boards are reported regularly to the Commission and examined in the Management Committee for Milk and Milk Products;
- the negotiating position of the buyers of milk was strengthened;
- the power to license processing undertakings was abolished;
- boards required the approval of producers in special polls in which the majority required was, in one respect, larger than in the poll establishing the boards.

Except in so far as the regulations grant special rights to the boards, they are, like everyone else in the Community, subject to the provisions of the Treaty and regulations made under it.

By and large there have not been too many problems for the boards in adapting to the Community requirements placed upon them. Very few producers have chosen to sell their milk other than to the boards. Setting up a separate management for commercial enterprises involve involved a certain amount of re-organisation. The power to license processing undertakings has, with the agreement of buyers of milk, been replaced by a locational pricing system. Strengthening the bargaining powers of buyers involved little more than giving legal backing to what had previously been done in practice.

It has not been easy to set up the system for reporting prices for dairy products which is required to establish whether there is a *prima facie* case that the milk prices charged by the boards are too low. However, this is a government responsibility, not a function of the boards.

The question has arisen whether the differential pricing system for milk operated by the boards, which is explicitly permitted by the regulation, is being operated in such a way as to jeopardise the efficient functioning of the market in milk and milk products. This is the subject of a 'reasoned opinion' delivered by the Commission to the British authorities under Article 169 of the Treaty. It would therefore be presumptuous to make any comment on the subject here.

### Inventory of Problems

At the outset, it should be appreciated that the agricultural marketing legislation and the marketing schemes were designed to ensure that no major problems would arise in a domestic context from the existence of a marketing board. Boards cannot be introduced unless the government is satisfied that they will be beneficial and unless they are acceptable to the great majority of producers. An inquiry carried out before a scheme is established ensures that anyone who may be disadvantaged can make his objections known and provisions of draft schemes may be (and have been)

changed to take account of such objections. All schemes make full provision for the protection of the rights of those involved, be they producers or commercial interests. Finally, the boards are fully accountable to producers; they must hold an Annual General Meeting of producers to report on their activities, to present their accounts and to fix the remuneration of the board members. Furthermore they are always subject to a demand for a poll that could result in the board being wound up.

Another factor of importance is that the boards are now a well established part of the British agricultural scene: the youngest is over 30 years old and the oldest nearer 50 years of age. They have therefore had ample time in which to overcome the day-to-day problems that arose when they were first established. Inevitably there are still occasions when the boards and commercial interests with which they negotiate cannot reach agreement. However, the marketing schemes make provision for recourse to a third party for settling such disagreements. It may therefore be said with some justification that the marketing boards are not the source of problems of any significance within the United Kingdom. At one point, the milk marketing boards posed a legal problem for the Community but this was overcome in the way explained above.

Because the boards have been established for so long, their rules are now accepted by the vast majority of producers. For the Milk Marketing Board in England and Wales, the main disciplinary issue is the information on sales of milk made directly to consumers by producers. A few fail to provide this information and have penalties imposed upon them. However, since the failure to make returns is usually due to negligence, the typical penalty is a few ECU's, and is paid without protest. Occasionally, however, a board is obliged to have recourse to the Courts before a producer pays a penalty.

### Conclusions

In the British context, and in the circumstances in which they were introduced, most of the marketing boards achieved their objective of improving the

efficiency of production and marketing of the commodity with which they were concerned to the benefit of producers, though not to producers alone. Some failed, as shown in the paragraph on legislation, though whether their failure was due to conditions in the industry or to the limited powers given to these boards is a matter for debate. Those that are left have won very widespread support not only from producers but also from other sections of the community, who value the services they perform. In short, they are part of the British scene and are seldom the subject of controversy or even of criticism.

At this stage, it may seem somewhat academic to discuss the wider application of the marketing board concept in the Community. However, it is apparent that in some regions and sectors, the marketing of agricultural products still leaves much to be desired. A variety of solutions have been tried, or are being discussed. The experience of the Milk Marketing Boards has shown that boards can be adapted to the requirements of Community legislation. As one sector after another moves into surplus, the success of the boards in stimulating demand by adapting products to meet consumer requirements, by improving quality and presentation and by motivating the consumer to buy should demonstrate that British experience with marketing boards could be a contribution towards the solution of some of the problems confronting the Community.



## THE NEED TO REDEFINE CO-OPERATIVE EDUCATION

by

Rita Rhodes\*

One of the basic co-operative principles is that of co-operative education. It was laid down in the original Rochdale precepts and re-affirmed by the International Co-operative Alliance (I.C.A.), which is the latter day custodian of co-operative principles, at its Congresses in 1937 and 1966.

Although co-operative education therefore has a long tradition in the movement, it is not always easily defined. This was highlighted recently when it was suggested that the I.C.A. should mount a Co-operative Education Decade to begin in 1986 and end in 1995, the I.C.A.'s centenary year.

The idea was put forward at the Sixth General Conference of the Advisory Group for International Training of Co-operators, which was held at the Co-operative College, Loughborough, in July 1982. AGITCOOP is the educational advisory body of the I.C.A. whose Central Committee decided, at its meeting in Rome, October 1982, that the idea should be considered in greater depth. The I.C.A. Secretariat therefore conducted an enquiry among AGITCOOP members and principals of co-operative colleges and training institutes who were asked whether they supported the idea and, if so, what form did they think that the Decade should take and what should its activities include. Unfortunately, the enquiry produced a low response rate of only 12%. Although those who replied were in favour of a Co-operative Education Decade, they gave few clear ideas about what its activities should include. Moreover, there was little unanimity among the ideas that were given. This lack of clarity and the assumption that those who had not responded represented 'no votes' led the AGITCOOP Executive to recommend that the I.C.A. should proceed no further with the idea.

From this experience it would seem that co-operative education far from being homogenous is, in fact,

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quite diverse. This could account for the lack of unanimity in ideas about activities in the Co-operative Education Decade. If so, it runs counter to a number of popularly held, but perhaps over-simplistic views, about co-operative education.

The purpose of this article is to illustrate that this diversity does, in fact, exist and to examine some of the consequences arising from it.

Failure to recognise this diversity has caused difficulties in defining co-operative education in the past. These can be seen in a report of a conference which the I.C.A. and the United Nations Educational, Scientific and Cultural Organisation (UNESCO) held in 1970. It was an International Conference of Co-operative Education Leaders, the report of which does not make gripping reading. A number of commonplace beliefs were stated such as that the experience of participating in co-operatives is educational. Of co-operative education in the 1970s mundane questions were posed: "What are the actual needs? What is being done to meet them? What are the present short-comings? What can and should be done to improve the situation"? No profound answers were offered. Most suggestions were on the level that "more use must be made of the great potential strength, latent in the unutilised membership, to get things done".

The report did reflect, however, a distinction between co-operatives in the developing and developed world. In the former it noted that co-operative education was still closely geared to teaching members about their societies and about co-operative economics and democracy. But, in the developed world, co-operatives were tending to move away from basic co-operative education. Instead they were involving more with consumer and community education.

Dr. Alex Laidlaw in his paper *Co-operatives in the Year 2000*, which was presented to the 27th Congress of the I.C.A. held in Moscow in 1980, also seemed to have difficulty in coming to terms with the modern diversity of co-operative education. Most of his comments relate to long-established movements. That Dr. Laidlaw had so little to say about co-operative education is disappointing because *Co-operatives in the Year 2000* is proving to be a work of seminal importance to the movement.

Moreover, one would have expected Dr. Laidlaw to say more because he was both an eminent co-operator and educationist, holding a Doctor of Education Degree from the University of Toronto. Only one section of his report deals directly with education and its examples seem to be taken largely from western consumer movements. For example, he says that it "is generally agreed that neglect of education is now fairly widespread throughout the co-operative movement ...". He then went on to say that "Few co-operatives can report that educational expenditures have kept pace with business growth and few can report that educational programmes are as vigorous as thirty or so years ago". Laidlaw later asserts that "...it cannot be denied that education has suffered by being left in the hands of management where it does not belong".

At the end of the section, Laidlaw attempts to convince, rather unsuccessfully that things are not quite as bad as they might appear. "But the future is not entirely discouraging, and the neglect of education, though obvious enough, is not complete, for there remains a certain percentage of co-operatives in all countries where imaginative educational programmes continue to bear fruit in the form of dynamic organisation, capable leaders and well informed members".

Laidlaw's observations refer only to education within the movement. He makes no account of that which is now developing outside it. This is not surprising because the tradition of co-operative education being an internal responsibility is a long one. Indeed, it was last authoritatively underlined less than twenty years ago. At the I.C.A.'s 23rd Congress in Vienna in 1966 the Report of the I.C.A.'s Commission on Co-operative Principles was received and its proposals endorsed. Regarding education the Commission proposed that the fifth of the six basic co-operative principles should read: "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".

In passing, it should be noted that the principle is dated in one important aspect. It refers only to

'education' whereas 'education and training' has become the widely accepted phrase because much of co-operative education today includes training. The Materials and Techniques for Co-operative Management Training (MATCOM) established by I.L.O. and the Co-operative Education Materials Advisory Service (CEMAS) within the I.C.A. are basically concerned with training.

But the main thing to note about the principle is that it places responsibility for co-operative education firmly within the movement. In its report, the Commission on Co-operative Principles noted the "expansion of national systems of public instruction". But it warned that these could not "relieve the co-operative movement of the educational responsibility it alone can discharge of educating people in the ideals of co-operation and the proper methods of applying its principles in given circumstances. It cannot devolve this function on any other institution'

### Externalising Co-operative Education

It can be argued that the movement should always remain the chief custodian of co-operative philosophy and principles which it can propagate more authoritatively than any other organisation. But increased trading pressures in many movements have reduced the resources they have available for education. In such circumstances external resources have become more important. A two-way development has in fact been occurring. On the one hand, co-operative topics are now increasingly taught in schools, colleges and universities. On the other, external resources are being made available for internal co-operative education. Examples of these include government funding of a number of co-operative colleges in the Third World and the grant of £52,000 from the EEC's Social Fund for co-operative training in Great Britain.

The tradition of external support for co-operative education is better established in the developing world than it is in the developed world. Movements there have emerged as parts of development programmes which have been funded by governments, U.N. and development agencies and co-operative movements in the developed world. Generally speaking, where education and training has been involved, the discharge by these agencies of functions which the Principles Commission saw as being a responsibility purely internal to the

movement has been sympathetic and quite acceptable. In the industrialised world the position is somewhat different. There, long established movements have until quite recently been capable of sustaining their own educational and training programmes. Assistance from governments' and other external agencies has not therefore been necessary.

But now the position is changing. New co-operatives are developing in many of these countries, often in response to problems to which governments encourage co-operative solutions. The educational and training needs of these new co-operatives may outstrip their resources and those of allied older movements. State resources may thus be brought into play including the supply of trainers. Here we have a situation which is common in developing countries but one which is still fairly new in developed countries, namely the role of the trainer in co-operative development. An influx of trainers may mean that some are appointed who are sympathetic to co-operatives but have little or no direct experience in them. There is therefore a need to train the trainers in co-operation. It is at a point like this that the established movement can ensure that co-operative principles are properly transmitted by advising on, and monitoring training schemes.

There have been so many examples of the movement accepting external assistance in co-operative education that it should acknowledge that the argument of the Commission on Co-operative Principles that co-operatives alone should be responsible for co-operative education is no longer tenable. Any re-statement of the educational principle should, however, emphasise that the movement is still the custodian of co-operative values and principles. It should therefore emphasise the desirability of establishing methods of consultation through which the movement can influence the content of co-operative education which is carried on outside the movement. Besides schemes of training trainers, another example could be that of school co-operatives in State schools. This could bring us into the area of the movement's relations with the State which is somewhat away from the main area of this article. But it should be noted that these relations are involved when, at national and international levels, the movement talks

about co-operative education. It is necessary, therefore, to be clear about what constitutes co-operative education.

### Modern Co-operative Education

To come to a modern definition, a useful approach might be to take an overview and to add up the experiences of co-operative education, in different kinds of co-operative and in different geographical areas. Co-operatives are voluntary organisations embodying freedom of choice. They therefore need to persuade people to commitment. As Goethe observed, "One does not possess what one does not comprehend". A feature that is common, therefore, to most movements is that they have a pre-development phase in which co-operative education plays an important part. Modern parlance calls it the 'sensitisation approach'; in earlier times it would have been termed propaganda. Whatever its terminology, it is a sound technique based on experience.

Other features in co-operative education can change with time as can be seen if we take a large modern consumer society in Western Europe and compare the education it provides today with that which it provided 80 years ago.

At the turn of the century the society was already likely to have been large, at least in terms of members when compared with other types of co-operative. Besides classes in co-operation it would probably have run others on economics and political theory. It can be seen from the syllabuses of many classes that societies had a lively appreciation of how their form of enterprise related to the surrounding society and economy.

The extent and nature of education within a co-operative is also influenced by what type of co-operative it is. For example, consumer co-operatives are potentially large membership organisations. Experience shows that, as their size increases, their degree of member involvement declines. Because proportionately fewer members can gain election to the board, declining member participation in consumer societies leads to declining demand for classes. Unfortunately, these have today often come to resemble entertainment rather than education. Indeed, the emphasis in many

contemporary retail societies is on 'member relations' rather than on 'member education'.

Alongside this shift in member education has been that of the growth of staff and management training. This has assumed greater significance as retailing has become increasingly large-scale. A retail society is now likely to spend more on staff training than it does on member education. But within that there may be little content on co-operative philosophy and principles.

Other comparisons, besides those in time, can also be made. Having compared the education provisions of a retail society today with those of 80 years ago, let us now compare its present-day provisions with those made by a retail society in a developing country. Generally speaking, this will be smaller and importance will still be attached to training members, committee members and officers. One reason for this is that the setting up of a retail society can lead to the establishment of other kinds of co-operative. Trained members who are capable of setting up new co-operatives are a valuable resource.

Education in consumer societies in the Third World today has some similarity with that practised by early retail societies in Western Europe, inasmuch as it is often linked to the development of literacy and numeracy. The society can also be the means of gathering women to teach them about better living linked to nutrition and hygiene as well as consumer matters.

Comparison between a modern retail society and other kinds of co-operatives such as producer, agricultural and housing co-operatives also reveals differences in the educational provisions which they make, whether they are in the developed or developing world. Whereas retail co-operatives demand little of their members, producer co-operatives demand much more, particularly if the workforce and the membership is coterminous. Members in workers' co-operatives need to co-operate on the work floor as well as in their members' meetings. They therefore have a greater need to understand their co-operative than their counterparts in most other kinds of co-operative. Consequently their education and training should teach them that the management they appoint is accountable to them. They

also require to develop some business skills so as to be able to assess trading results. An understanding of the trade or service in which they operate is also desirable. Management and member education in production co-operatives, therefore, has a much closer identity of interest than in other kinds of co-operatives. For example, because the operations of credit societies and housing co-operatives are less complex, their educational needs are more limited. Moreover, meeting these is assisted by the homogeneity of members' interests.

Generalising about agricultural co-operatives' educational needs is less easy. Not only do these depend on whether the society is in marketing or supply, but also on where it is based. For example in the western world, where there is a high degree of public education; members do not require general education. Moreover, their co-operatives have specific and limited functions which necessitate little additional training. But among agricultural co-operatives in developing countries the position is often different. Members of these may need both general and co-operative education.

The purpose of this brief review of educational needs and provisions in different kinds of co-operative has been to try to show the diversity in co-operative education which is more complex than is frequently admitted. The statement on the principle of education is not incorrect. Co-operative education is basically about educating "members, officers and employees and the general public, in the principles and techniques of co-operation, both economic and democratic". But, because the statement compresses and simplifies, it fails to reflect the educational permutations which arise from different kinds of co-operative.

### Changing Trends

Against this variable background, other changes are occurring. Besides the externalisation of co-operative education, there is another relating to the transfer of experience. Much of the Third World co-operative development was initially influenced by co-operative experience in developed countries,



particularly that in legislation and education. But the pattern is now changing as it is increasingly questioned whether methods that have been appropriate in one place necessarily transfer successfully to another. Moreover, it is now thought that co-operative growth which is based on local values and customs will be more easily adopted by new co-operators and therefore take stronger root.

An interesting collaborative research and training project on this question of appropriate transfers is now proceeding between the International Development Research Centre, Co-operative Programs Unit, at York University, Toronto, Canada, and the Co-operative College, Moshi, Tanzania. Its conclusions will be interesting and could influence future patterns of co-operative education.

#### Educational Clearing House

Another change is that there is a growing trend for co-operative officials to study at co-operative colleges in their own countries rather than at those in other countries which was more the practice in the past. This trend is to be wholly welcomed.

But it can mean that, with increasing home-based co-operative education, the need to have an international clearing house for co-operative educational experiences increases.

The International Co-operative Alliance is an obvious candidate to provide such facilities. Already, to some extent, it acts in this capacity. Through the Education Sections of its Regional Offices and through its Advisory Group for the International Training of Co-operators, it facilitates the exchange of experiences. As far as educational and training materials are concerned, the I.C.A.'s Co-operative Education Materials Advisory Service acts as a clearing house. It also produces its own materials which are designed for adaptation to local conditions.

The I.C.A. provides another important clearing house function as far as research on co-operatives in developing countries is concerned. In conjunction with the Hungarian and Polish co-operative movements, it produces a Research Register. The first edition of

this, comprising eleven Bulletins, published between 1974 and 1981, was an I.C.A. project within the framework of the Co-operative Development Decade 1971-1980. It is thought to have a longer-term value and the first Bulletin of a second edition will appear this autumn.

The Research Register provides not only a clearing house for co-operative research but also a potential resource for producers of co-operative educational materials.

### Educational Representative Functions

Primarily the I.C.A. exists to service its members' needs, and the transfer of experience between movements is an important aspect of this service. But another is the I.C.A.'s representative function, particularly with the U.N. and its specialised agencies. The representative and clearing house objectives meet in respect of education. By acting as a clearing house the I.C.A. Education Section is able to identify common features and emerging trends in co-operative education throughout the world. Having done this it is then able to speak on behalf of co-operative educationists with organisations such as UNESCO. There are two recent examples of this.

In April this year UNESCO held a meeting of experts to prepare for the 4th International Conference on Adult Education which is to be held in 1985. The purpose of the meeting was to consider "Ways and Means of Taking the Workers' Interests into Consideration when Formulating and Implementing Adult Education Policies". Five international non-governmental organisations were invited to participate including the International Federation of Workers' Educational Associations, and three world trade union confederations. The I.C.A. represented co-operative educational interests. Because of its clearing house functions, it was able to speak authoritatively about the co-operative approach to education and the techniques used by educators within the movement.

The second example of I.C.A. collaboration with UNESCO which benefits co-operative educationists is the UNESCO Travel Grants Scheme. Under this, awards are made to leaders of co-operative education. Applications are channelled through the I.C.A. The success of these

and the ultimate value to students of their study programmes depends on how effectively the I.C.A. knows the co-operative education scene in its member movements.

## Conclusion

In conclusion let us summarise the main arguments of this article. These have been that there appears to be some difficulty today in defining what is co-operative education. In view of its long and hallowed tradition within the movement this may seem surprising. The difficulty arises in part from the fact that education, as Laidlaw pointed out, frequently becomes a distinct and later a submerged function within co-operative societies. As co-operatives become older and larger, it tends to become a less organic part of their operations.

We then went on to argue that, in the past, a rather simplistic view was taken of co-operative education. This failed to take into account that, despite the widely accepted common goals stated in the co-operative principle on education, there is in fact great diversity. This stems not only from the increasing externalisation of co-operative education but also from the fact that educational needs vary between different kinds of co-operative. Another reason is that co-operative education is becoming more local and reflecting its cultural and economic contexts.

Finally, it was argued, this growing diversification makes it more important to improve methods of recording and exchanging experiences between movements. Further, that the I.C.A. is the appropriate international body to carry out such functions, and examples of what it is doing already in this area were given.

It is hoped that this article will have stimulated debate about various aspects of co-operative education but in particular, the need for a new definition.

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## LEARNING OBJECTIVES AND LEARNING PATTERNS

### FOR TRAINING IN CO-OPERATIVES

by

Peter Davis\* and Stephen Drodge\*\*

Distinguishing appropriate objectives for education and training is a particularly acute problem in the Co-operative Movement because of the very nature and aims of co-operative endeavour and the immense scope of this form of enterprise. The breadth of activities covered by co-operatives can be judged by the various forms they take - retail, agricultural, housing, credit, worker or industrial co-operatives etc. The very names given to these various forms indicate the practical 'nuts and bolts' objectives that these co-operatives adopt. But here is the rub. What unites all the very diverse activities undertaken by co-operatives is not what they do, nor even altogether how they do it, but the principles and values that guide their practice and behaviour. Members of co-operatives are not just concerned with technical skills to achieve production or service goals. They are particularly concerned with means by which these goals are reached and the social context within which business and other skills are practised. The thinking behind this article has focused on that type of co-operative generally referred to as a worker co-operative, but the issue we raise is likely to be relevant to all forms of co-operative organisation.

Co-operatives have been looked to at various times as a means of overcoming material want in society by providing jobs for the un-employed, decent housing for the poor, agricultural production, improvements in standards and quality of goods and services. In this endeavour co-operatives are not unique. What differentiates them from other forms of economic unit is their attempt to create different relations of

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production and distribution, to construct a labour process based not on external ownership and hierarchical control or management, but on community ownership and democratic control. This central and distinguishing characteristic of co-operative organisation requires that social skills and the system of attitudes and values to underpin them be developed in a particular way and given a priority at least equal to that accorded to the technical skills and knowledge areas required to run a successful economic enterprise. We would like to stress that we are in no sense arguing that co-operatives can somehow dispense with those technical skills. Nevertheless the organisational preconditions for a co-operative enterprise mean that it will not survive as a successful economic unit if the attitudes and values of its members are not sympathetic to the basis of operation.

Where co-operatives remain a fringe area of activity the question of attitudes and values may perhaps be safely left to the small group of enthusiasts attracted to this mode of organisation for its own sake. But today, as in similar periods of recession in the past, many workers and other interested parties such as government agencies, academics, political and religious groups are turning to co-operatives as a way out of a desperate situation. Co-operatives have been and are being formed as a last resort to protect employment or create employment in areas where investment has failed to be attracted in sufficient volume to meet the problem. The failure in the last century of the vast majority of the 'self-governing workshops' set up in Britain by the Christian Socialists came about not solely as a result of capital shortage or of commercial inexperience but also in part because many of the participants brought with them attitudes and values more appropriate to their former types of employment.<sup>1</sup> More recent and tragic examples abound of this failure to alter or develop attitudes in line with the change-over to a co-operative. The problem of bringing about a change in member attitudes is clearly still with us.

As with the co-operative members, so with the trainers. If all training for co-operatives could be assumed to be performed by people experienced in the Co-operative Movement, an understanding of the particular requirements might also be assumed. This is not the case, however, and the need for a systematic approach to the problem of defining the appropriate objectives for trainers must be emphasised. Developing appropriate resources and strategies to help practising members of worker co-operatives to achieve an understanding of how to work co-operatively should be a priority. Business and commercial courses alone will not be adequate to meet worker co-operative needs.

What, then, are the major appropriate learning goals, and what the concomitant learning patterns for co-operatives? The suggestions that follow are derived from a framework on which we have been working, and which, when completed, should enable co-operative workers and trainees to generate learning goals appropriate to them in their particular circumstances.<sup>2</sup> This is not the place to explore the detail of the framework or the thinking behind it.

We lay particular stress on the need for a learning programme in a co-operative to have a substantial content relating to the 'affective domain': that is, for much of the learning to concentrate on members' attitudes, values, relationships.<sup>3</sup> This must, of course, be set along side the technical, commercial and physical skills which are required to run an enterprise. But in setting these areas together and constructing a programme from them it is important to recognise the lack of congruence between much technical/commercial training input to co-operatives and the cultural value setting into which these techniques (laden with their own quite different implicit value system) are introduced. Co-operative training programmes must integrate the highest levels of technical excellence with co-operative values rather than have these essential values treated as a rather 'optional' extra to be placed at the beginning or end of some introductory programme teaching commercial skills called "Starting Your Own Co-operative", or something similar.

The management function in a co-operative is dependent on a more sophisticated application of social skills than is the case in the conventional business enterprise: this must be recognised in learning objectives for programmes of co-operative training. In addition, precisely because of its democratic structure, the subjective responses of individual members of the co-operative are likely to make a much more tangible impact on the success or failure of the venture than in a conventional business.

The need for dealing with 'attitudes' impinges directly upon training in commercial and business skills, for the often poor state of many co-operative enterprises in this regard is far from always recognised by the co-operative members themselves. Very often attitudes can be encountered which are very hostile or at least indifferent to the acquisition of business skills. In accordance with this approach we shall deal here solely with this area of 'attitudes'. Whilst the framework as a whole organises learning objectives under three broad headings (i.e. 'attitudes', 'knowledge', 'physical skills') we shall for the present purposes ignore the second and third. Skill statements are in a sense derived from the stated objectives of the enterprise itself and from the knowledge or information co-operative members need to acquire both in the development of their business and the development of the co-operative organisation itself. Readers of this article will also be aware of what, broadly speaking, co-operative members need to 'know' both in terms of business and commercial practices appropriate to various types of co-operative enterprise. This attitudinal area may conveniently be tackled in three areas, those of awareness, responding, and valuing.

Firstly, awareness. Awareness, that is, on the part of each member of his or her own responsibilities, needs and expectations; of the responsibilities, needs and expectations of other members; and of the social and organisational implications of how these interact. To become aware of each of these factors is itself a learning objective, with an overall objective of helping members to an individual and collective understanding and awareness of what



co-operation means, both as an instrument for achieving given goals and as a setting for the establishment of a sharing network of working relationships.

Secondly, responding. Responding, here, to the co-operative context, its opportunities and its demands. This involves co-operative members in developing the desire to actively seek the opinions of others and to offer their own views. Responding also involves translating the awareness of personal responsibility for collective decisions into the desire to act positively to carry this through in practice. In developing learning objectives under this attitudinal heading of responding one is not trying to add to members' knowledge of co-operative principles and theories or of any particular skill. What one is developing is the desire to explore these issues actively. Problems such as widespread lack of preparedness to respond to the challenges and needs that present themselves within families and communities are well documented. One can hardly expect that attitudes which are clearly absent in other areas of a person's life will generate themselves within work groups without a great deal of careful preparation. A work group does not become a co-operative simply by adopting the formal constitution of a co-operative.

Thirdly, valuing. Valuing, absorbing, making a part of oneself and one's outlook the co-operative, its principles and its processes. Learning objectives here might be to reach the stage of valuing the opportunity to participate in the co-operative's decision-making processes, accepting co-operative principles in personal and social activities as well as in the strict work context, accepting the application of co-operative principles to relationships with other co-operatives. Unless members genuinely gain a feeling of satisfaction and self-realisation through their involvement in the management processes within the co-operative (whether in the immediate decision-making meetings of a small worker co-operative or through the rather more mediated procedures of a larger concern such as in Scott Bader or Mondragon) then the co-operative cannot work to its full potential. For a viable

co-operative sector to emerge, co-operative values require the translation of co-operative practices within the individual co-operative into a desire to work co-operatively with outside co-operative organisations. It is all too easy for the spirit of mutuality to wither in the harsh reality of the market place and to be replaced by jealousy, insularity and competition.

We have now outlined fairly briefly some of the learning objectives which we would envisage. What learning pattern should accompany, and in part determine them? Certainly as regards attitudinal learning it is virtually inconceivable that traditional teaching methods should be employed. Self-realisation, for instance, is simply not something which can be taught in any conventional sense - but that is by no means to say that it is a process which does not involve learning. If this is accepted, then it follows that the members of a co-operative must by and large determine their own learning objectives. The function of our framework then becomes to help the learners to identify areas which may need attention and to appreciate the relationships between them, whilst examples of detailed learning objectives, such as have been given above, should stimulate the generation of others which may be appropriate to the particular circumstances of a co-operative.

A statement of learning objectives, then, could help by providing a basis for discussion within co-operative groups to aid them in the identification of their own training needs. The various sections of the framework referred to above could provide lists of objectives for educationalists to translate into the type of probing questions that would generate self-examination and be a basis for group discussion within a particular co-operative. The questions themselves could be given to co-operatives as a stimulus to carry forward their own analysis of their training and education needs. Each member might for example be asked in turn to comment on his or her own perception of the relevance of a particular question card to see what happens in the co-operative. A discussion would then ensue out of which a greater awareness of deficiencies in a particular aspect of co-operative activity might grow. Let us return for

a moment to two of the learning objectives outlined above to see how this might work in practice. For each learning objective with which a session starts, and for each additional objective which becomes manifest during discussion, a card (or cards) will be made out. This may be laid on the table for general discussion, as suggested above, or the cards could be dealt out for individual or group work. Each card will hold a question relevant to its learning objective and be designed to stimulate thought and discussion. Thus a question card for the objective of encouraging members to value their participation in the co-operative's processes (from the valuing area above) might read: "How much preparation do you undertake before a members' meeting?" The objective of taking responsibility for, and pursuing the enactment of collective decisions might have a question card reading: "Do you opt out of involvement when you disagree with a decision?" From such questioning, discussion, reformulation within a group, heightened awareness of the co-operative's strengths and problem areas should begin to emerge. Once this has happened, the benefits are twofold. Firstly, the co-operative would have a clearer understanding of the type of outside help and training input it required. Secondly, this method of identification of training needs would generate a much greater motivation of training objectives. Even if it could spare only one of its numbers to acquire the particular technical skills required initially, the member chosen to go on a given course would be returning to a much more receptive group than might otherwise be the case.

Finally, let us summarise briefly the main purpose for which this approach to developing learning objectives in an area which is difficult to structure may be utilised.

1. To enable secondary support agencies to develop exercises as a basis for discussion within co-operative groups to aid them in their own identification of training needs, not only in terms of knowledge gaps and skills such as the presentation of accounts, or product-based skills and knowledge, but also in terms of the attitudinal objectives for which sensitivity training and development may be required.

2. To provide a means of increasing the sensitivity of trainers and consultants to the specific needs of co-operatives. Once the critical technical skills have been identified trainers must be able to teach them within the context of the co-operative model. If they fail to do so they run the very real risk that much that is of value in what they teach will be rejected or its significance for the practice of the co-operative misunderstood.

3. To provide a framework with which secondary development agencies can identify gaps in resources to cope with particular objectives identified as critical for co-operatives. This will be of particular use to co-operative development agencies trying to identify learning objectives, compile and co-ordinate the necessary material for co-operative training.

There are undoubtedly considerable gaps in the resources available to help with development of social skills and values in the co-operative context, particularly since many of these skills are at least partly culture-specific. The development of materials and resources must be considered a priority.

Discussion around specific statements of appropriate learning objectives provides a concrete basis for co-operators and co-operative trainers in particular to determine how best to promote the application of co-operative principles and ideals to resolving some, at least, of the many social and economic problems that confront the world today. The proposals set out in this article attempt to go some way towards developing a format in which the flexibility, informality and independence of such organisations as co-operatives may be combined with the degree of structuring which is required if discussion is to move towards usable educational and organisational ends.

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## COMMUNITY DEVELOPMENT CREDIT UNIONS IN THE UNITED STATES

by

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Community development credit unions (CDCU's) are enjoying a modest renaissance in the United States. In cities and in rural areas scattered across the country, CDCU's are being nurtured by community activists as an instrument for encouraging local self-help. CDCU's have existed in the United States for about 25 years, but the recent reductions in the funding of social services by the Republican national administration, and the general economic recession, have given a new urgency to attempts by low and moderate income communities to influence their economic future.

To understand the role of CDCU's, it is helpful to locate them in the broader context of the credit union movement. Credit unions - co-operative saving and lending institutions - are found throughout the world, but they are particularly strong in North America. In the United States there are approximately 20,000 credit unions, with assets of \$60 billion. Credit union members make deposits in the form of 'shares', upon which they receive a return called a dividend which is paid from the surplus earnings of the credit union.<sup>1</sup> The shares are usually insured by a government agency. The credit union uses these deposited funds to make loans to members at a fixed interest rate. Non-loaned assets are invested, often in a central credit union.

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The American and Canadian credit union movements trace their origins to the German rural and urban co-operative credit associations established in the middle of the nineteenth century by Friedrich Wilhelm Raiffeisen and Franz Hermann Schultze-Delitzsch respectively.<sup>2</sup> Most American credit unions have departed significantly from the German model, however. The members of the early German associations were invariably producers: small farmers in Raiffeisen's associations, and independent craftsmen in Schultze-Delitzsch's, who had difficulty in securing credit at reasonable terms. The co-operatives made loans to members for productive purposes only, the rule being that the investment financed by the loans should be sufficiently productive to enable the borrower to repay the principal and interest. In America the function of most credit unions, when the movement was first begun in the early twentieth century and still today, is quite different. The social problem being confronted is not the small producer's need for credit but rather the excesses of the hire-purchase system or, as it is called in America, instalment credit. That is to say, credit unions in America are instituted primarily in order to help consumers, not producers. Consequently, the membership of American credit unions is overwhelmingly composed of wage and salary earners, not independent craftsmen or farmers.

Credit unions in the United States are chartered by the federal or state governments. Each charter specifies a 'field of membership', or the potential group of people who may be allowed to join the credit union. Fields of membership must be defined by some sort of common bond. The great majority of the fields of membership are defined by employment; for example a field of membership may be all the employees of a company, or all the public employees in a city, or the members of a union.



Community credit unions are distinguished from mainstream credit unions by the nature of their field of membership: the field is defined geographically, rather than in terms of employment or membership of an institution. A community credit union's field of membership may include all the residents of a township or a county, or in a large city perhaps all the residents of a certain neighbourhood. The term 'community development credit union' is sometimes used interchangeably with 'community credit union', but the National Federation of Community Development Credit Unions restricts the term to those credit unions with a geographical field of membership that are located in low and moderate income areas.

Of about 10,000 federally chartered credit unions in the United States, four percent, or 400, are community based with a geographical field of membership. There are currently 92 members of the National Federation of CDCU's, 24 percent of which are in rural areas and 60 percent in central cities. Half of the National Federation's members credit unions are predominantly of black membership, and 10 percent predominantly Hispanic.

The first CDCU's in the United States were established in the late 1950's, and they flowered in the 1960's as a component of President Johnson's 'War on Poverty'. Local community action boards in predominantly black rural areas of the south and in low income neighbourhoods of northern cities provided staff and space for fledgling CDCU's. Some of the War on Poverty CDCU's proved successful, but many collapsed, and still others have persisted but stagnated. In some of the less successful cases, it appears that the idea of a credit union was imposed from the outside and not fully embraced, or even understood, by the local leadership. In the 1970's and early 1980's a new wave of CDCU's was established, some of them with substantially fresh ideas about how to invigorate their communities.

CDCU's represent an attempt to reverse the impact that financial institutions typically have upon poor communities. It is perhaps self-evident that communities of poor people lack financial resources - but what is not so evident is that the banking industry often impoverishes poor communities still further. A series of studies has demonstrated that in many low-income areas banks and other thrift institutions normally accept deposits in far larger amounts than they make loans. In a poor area of Chicago, for example, it was shown that for every ten dollars of deposits made in local banks, only five cents was returned to the community in the form of home mortgages.<sup>3</sup> Poor communities do have savings deposits, but their members generally fail to meet the criteria of credit-worthiness established by financial institutions. Beyond this there is controversy about whether and to what extent banks practice 'redlining', or positive discrimination against loan applications from predominantly poor and ethnic minority areas. It is not necessary to prove discrimination, however; simply the normal use of credit criteria leads to the paradoxical result that banks drain financial resources out of the poor areas. A CDCU, then, can be seen as a means for blocking this drain, for allowing a community to make use of its own financial resources.

It is the case, of course, that typical members of CDCU's do not enjoy steady weekly paychecks and that they have less discretionary income than the average citizen. The CDCU's credit committees that decide upon loan requests cannot afford to ignore the credit-worthiness of their members: when they do, delinquency rates inevitably soar and the viability of the institution is jeopardized. They can, however, treat their members with sympathy and, what is rare in other financial institutions, actually help marginal loan applicants to establish credit-worthiness. They provide financial counselling, and help members to set up realistic budgets. They often establish the security of the loan by taking co-signers. The goal of every CDCU is to lend its members' savings back to the membership, and most go out of their way to develop secure means of doing so, so that the members' assets are protected at the same time that

the community's resources are being retained and used locally.

While all CDCU's seek to provide credit to their members, and to keep their communities' savings recycling internally, they differ considerably in their broader views about the contributions they would like to make to their areas' economic development. Some CDCU's, particularly the older ones, view their purpose simply as the provision of consumer credit, and they hold no particular opinions about the sorts of loans that are most desirable. In this attitude they mirror the mainstream of the United States credit union movement. Their purpose, as they see it, is to respond to their members' needs as expressed individually through their loan applications, and they may think it even improper for the management of the credit union to try to skew the loan portfolio in a different manner.

Other CDCU's, however - and this includes most of the more recently established ones as well as some of the older ones that have been open to new ideas - are taking a more activist view towards community development. Their goal is not simply to meet their members' needs as individuals, but to change the economic structure of their community in ways that will benefit the membership as a group. These credit unions have been assessing their own communities' most pressing needs, and then developing positive policies to meet them.

In some cases the most pressing need is seen as access to consumer credit, for such items as home appliances and automobiles. In other cases, needs have been identified in the areas of community services, housing, and small business development. The emphasis in some CDCU's upon small businesses has brought at least a portion of the credit union movement back full circle, to the original ideas of Raiffeisen and Schultze-Delitzsch, who saw co-operative credit as the source of business finance. There is no doubt that the majority of American credit unions will remain firmly committed to consumer loans, but it is likely that the coming years will see an increased emphasis within a number of CDCU's upon business growth and the provision of jobs as the most fundamental way in which they can improve the structure of their communities.

A few cases illustrate the sorts of programme that CDCU's are undertaking.

The College Station Community Federal Credit Union in College Station, Arkansas was organised in 1968. College Station is a rural unincorporated community near Little Rock, with about 4,000 residents, 87 percent of whom are black. It is a poor area, with low incomes, low educational levels, high unemployment and a preponderance of menial and service jobs. The credit union has grown over 15 years, but it is still very small, with savings deposits of not much more than \$100,000. It was originally formed because of residents' concerns about exploitation by loan sharks, who sometimes charged interest as high as 100 percent on short-term loans. The credit union has been sponsored by the local community action programme and has received subsidies in the form of staff salaries and space.

Because of its limited resources, College Station Community FCU has been able to make only small personal loans. It has, however, been instrumental in organising a Housing Development Corporation for the purpose of building new houses and rehabilitating old, and it has also spearheaded efforts to build a new multipurpose community centre structure. In other words, while the credit union's savings and lending activities have been necessarily restricted in scope, it has been able to function also as a general community development agency, encouraging considerable new economic activity.

The Navajoland Credit Union, located on the immense Navajo reservation in northern Arizona, is the most successful credit union in the country whose membership is predominantly Indian. It was founded in 1962 with initial capital of just \$2,000, and now has over 6,000 members, with assets of about \$9,000,000. The Navajo reservation has an alarming economic profile, with its 150,000 residents suffering from a chronic unemployment rate of over 50 percent. The Indians' experience is that their loan applications are not welcomed by local banks, because their income is low and variable and because they can offer little in the way of conventional

security for loans - and also because of biased attitudes of the banks towards Indians. The Navajoland Credit Union has a tremendous demand for loans, almost all in the form of small personal loans to members, for example to finance the purchase of a pick-up truck. Over half of the members are borrowers.

The most remarkable achievement of the Navajoland Credit Union is its low delinquency rate on loan repayments. Typically credit unions whose field of membership is composed primarily of people on steady salaries find that two to three percent of their loans are two months or more delinquent on repayments. CDCU's sometimes have delinquency rates twice as high, or more. In Navajoland, in contrast, where the unemployment situation is desperate the delinquency rate is between one and two percent. What this reflects is the sense of loyalty that members feel towards the credit union. Even though it is a large institution, with thousands of members, those members regard their obligations to the co-operative as fundamental.

The Union Settlement Federal Credit Union has a field of membership which includes most of Yorkville and East Harlem in New York City. This is a poor, dense urban area whose 120,000 residents are divided ethnically into Puerto Ricans (39 percent), blacks (39 percent) and whites (22 percent). Median family income is less than \$6,000 a year. Many of the private apartment buildings have been abandoned, and a majority of the population lives in public housing. Unemployment is very high, particularly among youth.

The credit union, founded in 1957, is associated with a parent organisation, the Union Settlement. The Union Settlement has a wide variety of successful programmes, including day care, pre-school, consumer education, senior citizens' home, home care, job training, youth training, alcoholism treatment, recreation, college readiness and housing rehabilitation. The credit union is therefore integrated into a much broader array of community services.

The Union Settlement FCU has about \$2,000,000 in assets. Because it is expected that most members will eventually

ask for a loan, the board of directors has imposed an upper loan limit of \$2,500 per applicant. This limit considerably restricts the possible purposes to which loan money can be put. The credit union has, however, authorised some loans for housing rehabilitation, and it hopes to be able to assist in the formation of housing co-operatives and small business expansion. The Union Settlement FCU is an example of a credit union operating in the most difficult possible area, and with very limited resources, but which is nevertheless attempting to make imaginative use of those resources.

The Santa Cruz Community Credit Union in Santa Cruz, California was chartered in 1977 with a field of membership including the county of Santa Cruz which has a population of about 180,000 people. It is a mixed urban and rural area, with an economy dependent primarily upon the seasonal activities of tourism and agriculture. The population is quite varied, with pockets of poverty scattered among middle and high income areas. The moderate and low income population is threatened by rapidly rising housing costs.

The Santa Cruz CCU currently has 4,000 members with assets of \$3,000,000 and it is growing rapidly. In 1979, when the credit union was only one tenth its current size, the board of directors made the basic policy decision that henceforth only 40 percent of the loan money should be directed to personal uses of the members, and 60 percent should be used for community development purposes. In each succeeding year, the credit union has come quite close to meeting this goal. The highest priority for community development lending is the promotion of other co-operatives, and loans have been made to a number of worker co-operatives, in sectors such as strawberry farming, printing, groceries, appliance repairs and retail stores. The credit union also supports partnerships and other small businesses, as well as service organisations such as a community radio station. Loans have been made for co-operative housing and land development. The credit union helps local small businesses and co-operatives to develop networks with each other, and through workshops and counseling it provides technical assistance in accounting, marketing, and preparing loan packages.

Since credit union legislation and regulations are generally based upon the premise that credit unions are consumer finance organisations, the Santa Cruz CCU has faced a number of problems in developing a portfolio of loans to businesses and co-operatives, but it has been able to find innovative ways to meet its goals. The '60-40' policy seemed very risky to the board members when they first adopted it, but it is now seen as the heart of the credit union.

The North Greenmount Community Development Federal Credit Union was chartered in 1978 in an inner city neighbourhood of Baltimore, Maryland, as a response to the closing of a local financial institution, the Waverly Savings and Loan Association. North Greenmount is a successful example of a new CDCU, with a well-developed business plan and imaginative responses to its community's needs.

The North Greenmount leadership have decided that the credit union can make a contribution in the area of housing. Housing in the neighbourhood is relatively cheap, but prices are rising and consequently there is a danger of low income people being squeezed out. The credit union, while growing, has assets of only about \$1,000,000, and so it cannot embark upon an enormous programme of mortgage lending to its members. It has been able to make a number of loans on houses, however, and perhaps more importantly it has participated in broader programmes to provide housing finance. In some cases the credit union can provide the entrepreneurship, or the little bit of extra financing, that make it possible for public and private foundation monies to be directed towards local housing.

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Each CDCU is different, and these sketches are just examples of the different approaches being used by groups of people trying to employ a co-operative financial institution as an agency for local community development.

While the CDCU's have made some real advances in recent years, they are by no means secure yet. The most glaring problem is that most of them are so small that their self-sufficiency is in doubt. The typical CDCU has less than a thousand members, and assets of \$300,000. Many are much smaller, and even the giants

of the movement, such as Navajoland, or the Matanuska Valley Federal Credit Union in Alaska which has about \$20,000,000 in assets, are small by comparison with most local banks. Their size limits their impact on their communities, and it also puts them often just on the edge of survival.

In the current financial climate, a typical credit union can earn a spread of about seven percent a year on its money - that is to say, the difference between average earning on its loans and investments of about twelve percent and the dividend rate of perhaps five percent. Hence a million dollar credit union has an earned disposable income of about \$70,000, and a \$200,000 credit union has an earned disposable income of about \$14,000. Clearly the smaller credit unions cannot meet even the most minimal charges for staff, space, data processing and materials without a subsidy of some sort, and even the moderately sized credit unions find themselves hard pressed.

It would be tempting to conclude that CDCU's are small because their members have low incomes, but this is not the full story. Conventional banks operating in the same neighbourhoods often have deposits that are many multiples of the credit unions'. The truth is that CDCU's are in competition with conventional banks, and they have difficulty meeting the competition because they are typically operated in quite an amateur way. Their staff and board members are local people who usually lack background and training in financial management. Their business plans are vague if they exist at all. Financial services to members are often quite limited; for example the CDCU may not offer chequing accounts (called 'share drafts' in credit unions) or money orders. Sometimes the CDCU office looks shabby, when compared to the bank, and this can make a big difference to most people, who tend to be quite conservative when it comes to money.

The National Federation of Community Development Credit Unions, which is a membership organisation of the CDCU's, attempts to help them overcome these obstacles by offering a programme of technical assistance and training.<sup>4</sup> It has also embarked upon several major efforts to secure large non-member deposits for CDCU's that can help them to raise their



incomes. A joint programme with the National Credit Union Association and the previous Democratic administration did result in non-member deposits of between \$100,000 and \$200,000 for 30 CDCU's, and the National Federation is currently attempting to raise capitalisation funds from private sources.

Subsidies and non-member deposits can help in the short run, and they may be critical to the establishment of new CDCU's. Subsidies are uncertain, however, and institutions that depend upon them for survival are in a precarious position. In the long run, CDCU's can flourish only as self-sufficient businesses, and they need to develop the appropriate business skills and techniques. As they gain these skills, there is every reason to think that they will not only survive but grow, and not only grow but develop ever more imaginative and innovative ways to stimulate the economies of low income communities.

#### NOTES AND REFERENCES

1. It is an interesting question whether the dividend on shares violates the Rochdale principle of paying only fixed and limited interest on investments in a co-operative. The dividend is not fixed in advance, since it is paid out of the residual surplus earnings that are accrued at the end of an accounting period, and its rates may vary with the size of the surplus. On the other hand, it is plausible to consider saving and borrowing as 'patronage' in a credit union, and hence to view the dividend on savings as well as the interest rebate on borrowing that is paid by some credit unions, as being analogous to a patronage refund.
2. A good history of American credit unions, which traces their connections to the German societies, is Moody, J. Carroll and Fite, Gilbert C. *The Credit Union Movement, Origins and Development 1850-1970*: Lincoln, University of Nebraska Press, 1971.
3. See Caftel, Brad J. *Community Development Credit Unions, A Self Help Manual*, National Economic Development Law Centre, Berkley, California, 1978.
4. The manual by Caftel, op. cit., is also a useful resource.



## THE ROLE OF CREDIT UNIONS IN AFRICAN ECONOMIC DEVELOPMENT

by

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With the acquisition of independence all the African countries embarked on the tasks of nation building strengthening their state machineries by making strategies for speeding up social economic development. Considerable progress has been made in many countries, but there are very few cases where this has brought about complete or total development. The development process is the source of concern for all African countries. Large sections of their populations are still poor, with in some cases great degradation. There are very few people who are rich in these countries. The depressing economic conditions of the masses have been compounded by physical disasters such as droughts, floods and locusts.

Because of these reasons, it can be seen that African countries should put in even more concerted efforts for the development of their economies for the betterment of their peoples. The savings and credit unions have proved to be one of the effective means of socio-economic development in many African countries, which involve people in their development process on a self-help basis. They improve living standards, raising sub-human living conditions, and finally effect the desired social change in a relatively short time.

African countries should concentrate their development efforts on savings and credit unions which use mobilised savings, because they can no longer depend entirely on foreign aid, especially now that the present picture of external assistance is gloomy. Economic depression in many industrialised countries

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and tight governmental budgeting has resulted in reduced foreign aid to African countries and this is often given only under certain conditions.

The economic imbalances existing within African countries between their rural and urban areas are also a source of concern. This is why development projects should not be concentrated in urban areas, but be extended to the rural areas where the majority of their people live. It is logical therefore that African countries should concentrate on promoting and developing credit unions in the rural areas because these aim at ploughing back the resources within their areas of existence.

### What is Economic Development?

In 1969 Dudley Seers<sup>1</sup> conceived of development as involving not only economic growth but also conditions where people in a country have adequate food and jobs, and the income inequality among them is greatly reduced. Eight years later in 1977 in reviewing his conception of development Seers<sup>2</sup> pointed out that he left out one essential element which should be added. This is that the emphasis in development is no longer on overall growth rates or on patterns of distribution. The crucial targets include adopting consumption patterns that economise on foreign exchange, institutional capacity for research, etc. and cultural goals.

Development therefore involves the whole economic mechanism in order to increase a country's production of goods and services, raise the per capita income, increase investments, as well as produce changes in the distribution of economic benefits, and provide education, and social and cultural welfare activities.

### What are Credit Unions?

Some people think of credit unions as being just like commercial banks or rich financial institutions for rich business men. They do not know that credit unions are for all the people, even the poor. There are others who think of credit unions as trading companies: these people are not aware of the social significance of the credit unions. Yet others think of credit unions as trade unions: they confuse the

two words. Both have the common objective of trying to better the conditions of man, but each one of them has a different way of approach.

As Kibirige<sup>3</sup> writes, a credit union is a savings and credit society whereby members put together regularly their pooled savings with a view to obtaining loans for provident and productive purposes. A credit union generally has three purposes:

1. to promote thrift;
2. to provide a loan at a low rate of interest; and
3. to teach people the wise use of their money and the efficient management of their limited pooled resources.

Savings and credit unions are committed to the concept of self-help in order to bring about the much-needed socio-economic development among the rural, as well as the urban poor, through the mobilisation of savings and advancing of loans for productive ventures as well as for educational and welfare purposes.

In most African countries, as the African Co-operative Savings and Credit Association rightly points out<sup>4</sup>, credit unions have attained reasonable success, partly due to the following reasons:

- they are member-owned and controlled;
- as locally-based financial institutions they are responsive to the needs of the people, and oriented to the needs of the individual saver.

Because these institutions are for the poor sections of the community, who cannot get financial assistance except from the money lender, African countries should render to these institutions all the possible support they can afford in order to ensure their success.

## Credit Unions and Economic Development

Financial institutions such as credit unions can contribute significantly to economic development. Two main issues exist regarding the influence of credit unions: first their impact on the growth of local savings, especially of the household sector; and second in the keeping of these savings in development projects.

Schumpeter<sup>5</sup> is generally acknowledged as the first person who has talked about financial institutions being necessary for economic development. He asserts that for an economy to develop, two conditions are necessary; financial institutions and the availability of entrepreneurship. Among other followers of this view are Goldsmith<sup>6</sup> who in his study of 35 developing countries found out that high financial structure development was associated with high real development, implying that the first is a prerequisite of the second.

Although the financial interrelation ratio is not the only factor that affects economic development (cultural and political factors can also do so), it is a strong element and one which can help us understand why countries with poorly-developed financial structures like credit unions have not developed. In fact Cameron et al<sup>7</sup> have also concurred with this view and have pointed out that as financial institutions are intermediaries they act as reservoirs of idle funds which can be invested in development projects.

### Mobilisation of Local Savings

I strongly agree with Schumpeter and Cameron et al that financial institutions can make a valuable contribution to economic development because they mobilise more domestic resources. This is particularly true of savings and credit unions because as members make more savings, they are creating capital which can later be ploughed back into the economy. Savings are easier to make in a credit union because members own and operate it for their own benefit.

Credit unions have succeeded in accumulating savings from farmers and non-farmers alike in joint funds;

this has permitted capital transfer openings, for example from savers with a steady income to farmers with seasonal capital needs. This saved capital needs to be directed properly by investing it in productive ventures.

Kirsch<sup>8</sup> shows the growth of both membership and savings in a few selected African countries from 1970 to 1974 (Table 1). The figures show clearly how credit unions can mobilise funds which could be ploughed back into the economies of their countries. This means that the large increases in savings and deposits are a result of the stepping up of the exploitation of members' savings potential as well as dynamic member recruitment.

These figures have definitely gone up by now; for example in Zambia, by January 1983 credit unions had accumulated K6 million in savings from 30,000 members. Looking at this trend therefore it is certain that many African countries can mobilise considerable amounts of money which could be used for national development.

Savings can only be achieved if consumption is postponed somewhere in society. In the case of credit unions this is done voluntarily. To save resources for bad times ahead or to pursue some long-term plan aimed at capital formation the people of African countries must be encouraged to postpone consumption and put part of their income as savings in financial institutions like credit unions.

However, there are at the moment inadequate facilities to encourage people to save or advise people on better money management. For example, surveys carried out in rural communities of subsistence farmers in the central, southern and eastern provinces of Zambia showed that the great majority of farmers surveyed had saved or 'hoarded' not less than K40.00 each on average. Five percent had K100.00 or more. Very few farmers were without savings of any kind since most invested in animals and equipment. However it was discovered that most subsistence farmers lost their hard-earned money from agricultural products within a short period of getting paid because of advice on better

Table 1.

COUNTRY	1970	1971	1972	1973	1974
	U.S. \$				
Zambia	784,900 (7,294)	1267,000 (10,541)	1,669,888 (12,526)	1,878,374 (12,000)	2,079,401 (12,568)
Tanzania*	-	-	-	-	1,335,474 (42,486)
Ethopia	97,200 (2,068)	154,000 (2,856)	182,400 (3,433)	458,600 (4,480)	701,638 (5,437)
Kenya	770,960 (22,154)	1,162,200 (23,500)	2,442,380 (35,745)	4,797,950 (55,355)	7,340,960 (68,800)
Cameroon	192,000 (8,470)	419,000 (13,975)	672,000 (19,268)	1,055,000 (22,514)	1,669,000 (24,969)

Figures in brackets represent numbers of members.

\* There are no figures from 1970 to 1973



money management.

There must be millions of *kwachas* in rural areas of most African countries which have not been saved. The same is true of urban areas. Obviously if these savings could be mobilised and put to use in productive projects they could contribute greatly to both rural and urban development of African countries.

### Investment of Credit Union Funds in Development Projects

In many African countries great importance is attached to the provision of credit unions as financial institutions providing cheaper credit for investment and for development projects. This is so because availability of credit reduces the operational capital bottleneck and makes available operational equipment as well as production technology and inputs.

### Rural Development

"According to some recent statistics on Africa about 80% of the population live in rural areas and of those, 85% are engaged in the agricultural sector. African governments are becoming more and more aware of this fact and are making considerable efforts to assist in initiating development programmes to accelerate rural development."<sup>9</sup>

Through the credit union movement the spirit of saving has been inculcated into the people's minds. Through small but regular savings with the credit unions rural people who are normally considered to be too poor to save have created some capital for their own socio-economic development.

In Africa agricultural production has been hampered by a number of factors including lack of agricultural credit. But with the credit union programmes, which aim at higher productivity per acre, loans are made to members for buying fertilisers, improved seeds, insecticides, crop storage, agricultural implements and hiring tractors etc. It must be understood that many African governments have introduced several credit schemes but these are usually restricted to the better-off farmers. In fact loans obtained from credit

unions are cheaper than those obtained from elsewhere "The high cost of administering small loans and the risks involved have tended to keep away most of the commercial credit institutions in the rural areas in most countries. Looking at this sad situation therefore, there is a need to encourage credit unions to play a bigger role in rural areas in spite of the Government farm and agricultural credit schemes."10

It is rightly observable that African rural farming is changing from traditional to modern farming which requires more inputs and advanced technology which can only be acquired with more funds. In the absence of cheaper loan facilities people are forced to borrow from loan sharks etc. There are many who do not have anywhere to borrow from in order to develop their agricultural potential and this last point makes the formation of credit unions more urgent.

Credit unions finance small-scale industries in the rural areas as well as the physical infrastructure, where they play a vital role in generating employment. They include carpentry, handicrafts, sewing etc. and generate more funds which can be used for other development activities. Credit unions savings can play a big role in the financing of small scale industries and have also financed other projects like road construction and provision of electricity.

### Urban Development

A great many Africans show a strong liking for urban living. Africa was a late starter in the urbanising process and remains the least urbanised in the world. "Yet Africa has the highest urban growth rate as measured by the increase in the population of cities with more than 100,000 inhabitants. United Nations estimates show that the percent increase between 1900 and 1950 was 629 in Africa, 444 in Asia and 254 in the world at large"11. The population explosion has been accompanied by an urban explosion, creating problems of unemployment and the burden of supporting large extended families. The credit union programme is aimed at combating some of these problems and consequently raising the standard of living of many Africans. Many unions are industrial credit unions which have as their common bond employment in the same factory, industry or business. Credit unions

based on the common body of the community (i.e. formed by the people living in the same locality) are also prevalent.

With the money borrowed from their credit unions members are building small decent low-cost houses. They do so either on their own initiative privately, or in a group as a co-operative venture. As Kilbirige points out<sup>12</sup>, in Uganda, Cameroon, Kenya and Ghana, credit union members were able to build 50 houses in an average period of five years. More money in workers' credit unions is also being made available to members for starting consumer shops, small farms, small-scale industries as well as consumer loans for buying home requirements. (Lesotho provides a good example of small scale industries which include carpentry, cottage industries and tailoring<sup>13</sup>.) These activities provide employment as well as raising the standard of living of the members engaged in them. These are just a few of the projects into which credit unions funds can be invested.

#### Savings/Investment and Level of Income

ACOSA's views on the connection between savings/investments and the level of income are worth repeating.<sup>14</sup> When members of a community embark upon income-generating projects, they set the socio-economic development of that area through what economists call 'multiplier effect' where one economic activity stimulates the other. For example when a member gets a loan from a credit union to start a farm he will have to buy a plough or tractor, inputs like fertilizers, or new improved seeds, and he will also employ some people to work on his farm. That means that the local dealers in the ploughs and those who sell fertilizers, etc will be kept in employment because there is an effective demand for their products. Similarly, manufacturers of tractors and fertilizers will be able to continue with the production and maintain the labour force they are employing in their factories, who also have to spend their income in various ways. Employment is also created on the farm and these workers will also have to spend their income on various requirements.

When this level of development is reached, one may argue that the community could be at the point of breaking the vicious circle of poverty which is characterised by low income, low savings and low employment opportunities. With increased level of income the members' saving capacity will be boosted, hence more investment and employment opportunities.

### Credit Unions Teach People How to Develop Themselves

In many cases, particularly in African countries, credit unions are the cause of people saving for the first time in their lives. Similarly they have given people credit for the first time in their lives. Through the election of officers, people have often voted for the first time in their lives. With these simple acts, credit unions have accomplished far more than just providing a place to save and source of low cost credit. They have given people dignity and self-respect where none existed before.

It is not enough, as Prindle<sup>15</sup> writes, to tell African people about the new crops that would be more suitable for their farms, or the fertiliser that will help increase their yield. They need funds - available only through credit because they had never been able to save - in order to put into practice what they have been taught. In this the credit union fills an important need. Credit unions teach people how to spend their money intelligently and to get the maximum benefit for themselves and their families and by doing so, credit unions teach people how to develop themselves and how to live prosperously.

By developing the poorer sections of African populations, credit unions are trying to narrow the social stratifications that exist in African countries. Also since credit unions are not profit-orientated businesses they are helping greatly in equal distribution of African resources. Through co-operative effort people are helping each other to develop themselves as well as their communities.

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# CREDIT PROCUREMENTS THROUGH CO-OPERATIVES IN

## THE SAVANNA ZONE OF OYO STATE

by

Remi Adeyemo\*

The importance of co-operative thrift and credit societies cannot be over-emphasised, because of the problems encountered by small-scale farmers, craftsmen, petty traders or even wage earners from ordinary or commercial banks. The attitude of not entertaining application from these people by the bank is due to the expenses involved in granting such loans and in managing them, coupled with the absence of approved security. These societies, therefore, draw their members from the low income earners. They are also used by farmers who wish to be freed from the claws of private money lenders.

Successive governments in Nigeria have always aimed to foster the growth of co-operative thrift and credit societies more consciously as an instrument for achieving increased socio-economic activities, improved agricultural productivity and rural transformation. In spite of this desire on the part of the government, there is still some doubt about the effectiveness of the farmer's thrift and credit co-operatives as an instrument of agricultural development in Nigeria. There has been no specialised study of the thrift and credit groups in the Savanna zone of Oyo State and it is therefore the purpose of this study to fill this gap, by analysing the performance of rural-based thrift and credit co-operatives in solving the credit needs of members in the Savanna zone of Oyo State.

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## Methodology

This study was done by means of both primary and secondary data. The primary data were obtained through a structured questionnaire. Because of the diversified nature of the area covered, the assistance of co-operative officers was sought in their respective areas of jurisdiction. Members of co-operatives were interviewed in seven local government areas of the savanna zone. These are Ifedapo, Iseyin South, Iwo East, Kajola East, Iseyin North, Ogbomosho West, and Kajola West local government areas. A total of 210 members were interviewed, drawn from a total of 35 groups in the local government areas covered.

The secondary data was obtained from various files and other official records of the Co-operatives Division of the Ministry of Trade and Co-operatives as well as respective local government headquarters. The chief registrar, principal registrar and inspectors of co-operatives were interviewed, in addition to attending their annual general meetings.

In the analysis the study applied an ordinary least square method to investigate the factors that influence the supply of loans to co-operatives.

## Organisation Structure of the Co-operative Movement in Oyo State

The organisational structure of the co-operative movement is in pyramidal form under a three-tier system (Figure 1).

The first tier are the primary societies which are made up of individual co-operators at the different local levels. These societies furnish their members with a convenient and secure means of saving money and obtaining credit at a reasonable rate of interest. It is important to note that thrift and credit societies are also charged with the responsibility of inculcating in their members the habit of thrift which is at the very root of efficient credit operation. In the second tier are the secondary organisations which are made up of the primary societies and they are referred to as unions. Just as individual members are required to make regular monthly savings, the societies affiliated to a union are also required to make regular savings. In order to secure a substantial loan, the credit unions are also obliged to affiliate to the central financing society through which loans can be obtained for on-lending to their member societies.



## Discussion of Major Findings

An analysis of members' ages reveals a range of 20 to 70 years. Almost 63% are between 50 to 70 years old; while about 23% are from 20 to 30 years. The implications of the different distribution lie in the outlook of people of different ages to seek social changes. Experience has shown that younger co-operators are more susceptible to social changes; they can easily adjust and adapt to different situations. According to Cobe younger ones do influence the old ones within the same group. He pointed out that this influence showed by having a common uniform at the end of the year when the general meeting of the group was held. In agreement with the Cobe study at Aba Gani in the Ifedapo local government area, the group bought a common uniform to mark the end of the year which was a testimony of the influence the young have over the older people. Apart from this, the committee stated that some members between ages 20 to 30 embarked upon road construction and culverts that lead to other villages.

## Occupation Distribution

The main occupation of most members (81%) is farming, as shown in Table 1. This is because members live in a rural area which is an agricultural production area. As long as there are no other economic factors such as a high demand for food, insufficiency of working capital and other social problems, there is no problem of a food scarcity in these areas. Consequently people spend less on food and can concentrate on industrial materials.

Table 1

### Main Occupation of Members

<u>Occupation</u>	<u>No of Members</u>	<u>% of Total</u>
Farming	170	81.0
Carpentry	4	1.9
Trading	20	9.5
Tailoring	8	3.8
Cloth Weaving	5	2.4
Shoe making	3	1.4
Total	210	100.0

Source: Field Survey; 1981/82.

In Nigeria, farming is not often a very lucrative business especially when practised in the African traditional way by using less efficient and labour-intensive tools like hoe and cutlass. Consequently, many farmers, traders and other members supplement their income by practising subsidiary occupations (see Table 2)

Table 2  
Secondary Occupation of Members

<u>Occupation</u>	<u>No of Respondents</u>	<u>% of Total</u>
Farming	24	11.4
Carpentry	50	23.8
Trading	23	11.0
Tailoring	27	12.0
Cloth Weaving	40	19.0
Shoe making	46	21.9
<b>Total</b>	<b>210</b>	<b>100.0</b>

Source: Field Survey, 1981/82.

It should be noted that about 80% of the respondents with trading as both major and subsidiary occupations are women, while men practice farming as either major or minor occupations. This implies that women join the societies with the sole aim of obtaining loans to carry out their trading activities.

#### Experience in Farming

Since farming is the main occupation of most members, attention is focused on the number of years members of thrift and credit co-operatives have spent in the farming business (see Table 3).

Table 3

<u>Years of Farming Experience</u>	<u>Farming Experience</u>	<u>% of Total</u>
	<u>No. of Respondents</u>	
0 - 10	30	14.3
11 - 20	70	33.3
21 - 30	52	24.8
31 - 40	28	13.3
41 - 50	18	8.6
Over 50	12	5.7
<b>Total</b>	<b>210</b>	<b>100.0</b>

Source: Field Survey, 1981/82.

## Income from Farming

In the savanna zone farmers produce such food crops as maize, rice, yams, guinea corn, cassava and cocoyam. The income realised from farming is a reflection of various socio-economic variables. Since respondents are predominantly foodcrop producers, their produce is of small scale and much of the farm produce is for family consumption. As indicated in Table 4, most of the farmers (52%) realised less than ₦500.00 during the last cropping year from the sale of their produce, while only 6% of the respondents realised between ₦1,500 and ₦2,000.

Table 4

<u>Farm Income Distribution</u>		
<u>Money Value ₦</u>	<u>No. of Respondents</u>	<u>% of Total</u>
0 - 250	65	31.0
251 - 500	45	21.0
501 - 750	33	15.0
751 - 1000	21	10.0
1001 - 1250	20	9.5
1251 - 1500	14	6.7
1501 - 1750	4	3.3
1751 - 2000	5	2.4
Total	<u>210</u>	<u>100.0</u>

Source: Field Survey, 1981/82. \*₦ 1.1 = ₦1.00 app.

The low annual gross income could be attributed to many factors such as old age and the small scale of the enterprise due to paucity of working capital whose inadequacy limits the extent of their farming and trading activities.

A considerable percentage (77%) of the respondents that realised below ₦1,000 had more than one wife, some even had up to three or four wives with many children and as a result could not maintain them properly.

## Farmers' Farm Expenses

Nowadays, due to the increasing scarcity of family labour, the farmer is forced to spend substantial sums on hiring labour for such labour-intensive operations as initial clearing, mould-making and weeding. Farmers

also have to purchase inputs like fertilizers and insecticides, although these are subsidised by the Government. Table 5 shows that 27% of the farmers spent less than ₦100 on farming operations during the last farming season, while 40% of the farmers in the area of study spent between ₦100 to ₦300 on their farming operations. It is interesting to note that only 8% of the respondents spent between ₦500 and ₦700 during the last farming season.

Table 5  
Farm Expenses Distribution

<u>Total Expenses (₦)</u>	<u>No. of Respondents</u>	<u>% of Total</u>
0 - 100	57	27.1
101 - 200	43	20.5
201 - 300	40	19.0
301 - 400	30	14.3
401 - 500	22	10.5
501 - 600	8	3.8
601 - 700	10	4.8
<b>Total</b>	<b>210</b>	<b>100.0</b>

Source: Field Survey, 1981/82.

### Credit Availability

Out of the 210 respondents randomly selected from 35 societies, 185 members were able to take out loans from their respective groups during the 1981 cropping season. An analysis of loans (Table 6) shows that 60% of the borrowers received less than ₦100.

Table 6  
Amount Borrowed from Co-operatives

<u>Amount (₦)</u>	<u>No. of Farmers</u>	<u>% of Total</u>
0 - 50	71	38.4
51 - 100	40	21.6
101 - 150	27	14.6
151 - 200	25	13.5
201 - 250	18	9.7
251 - 300	4	2.2
	<b>185</b>	<b>100.0</b>

Source: Field Survey  
1981/82

The amounts are generally small so that funds can go round to all members. Only 12% of the respondents obtain between N200 and N300 of loans. These loans are short-term in nature because the money is generated by the members, and rotated and given out according to the individual's needs.

### Capital Formation - Savings

In all thrift and credit co-operatives savings are compulsory for members. In fact, groups of this type are established or formed in the rural areas to foster in members the habit of savings. It can be seen from Table 7 that all respondents have saved certain amounts with their co-operatives. About 63% of the members have deposited less than N100, while only 11% of the members have saved between N200 and N300.

Table 7

#### Amount of Savings in the Co-operatives

<u>Amount (N)</u>	<u>No of farmers</u>	<u>% of total</u>
1 - 50	84	40.0
51 - 100	48	22.9
101 - 150	33	15.7
151 - 200	21	10.0
201 - 250	19	9.0
251 - 300	5	2.4
Total	210	100.0

Source: Field Survey, 1981/82.

### Respondents' Reasons for Joining Co-operatives

An organisation which is voluntary in nature, like that of the thrift and credit membership, is made up of people of different views; consequently they must also have different reasons and aims in mind before joining that association. Analysis of data shows that 76% of the respondents said that they had joined the organisation in order to obtain loans to enable them to carry out their farming and business operations. About 14% maintained that they joined the organisation so that they could get favours from friends and neighbours. Others indicated that they did not think about any reason before joining thrift and credit co-operatives - they joined because others joined.

Table 8  
Co-operative Loans Statistics

Local Govt. Area	Membership	Loans Granted (N)	Loans Repaid (N)	Loans Repaid as % of Total Loan Granted %	Loans Outstanding (N)
Iseyin South	4,565	239,029	117,229	49.0	121,800
Iwo East	3,640	94,859	41,937	44.2	52,922
Ifedapo	4,450	183,273	125,631	68.5	57,642
Kajola West	4,053	217,918	123,106	56.5	94,812
Kajola East	4,431	217,180	107,126	49.3	110,054
Ogbomoshoh	4,235	135,315	72,448	53.5	62,867
West	5,136	389,179	244,590	63.0	144,569
Iseyin North					

Source: Field Survey, 1981/82.

## Membership and Loan Statistics

As shown in Table 8 co-operative societies in Iseyin North local government area control the highest membership (4,565) and those in Iseyin North local government area come first in terms of the volume of loans granted (N389179).

Loans by thrift and credit groups are given on personal security based on the character of the borrower and the provision of surety given by one or more of his or/her neighbours, against whom proceedings can be instituted in case of default. Even though loans may be adequately secured, the last thing that a co-operative society wishes is to take proceedings against one who has acted as surety. So as to avoid this, groups in the study area always evaluate members' capacity to repay loans before loans are granted. For example, if the loan is for agricultural produce, for which prices may easily fall, the loan will not be made for more than 60-80% of its assumed value.

In terms of loan repayments, societies in Ifedapo came first with a repayment rate of 69%. These societies are quite impressive both in terms of the volume of the loan granted and the recovery rate.

Analysis of the groups' financial data reveals that 92% of the total capital of the societies is derived from equity sources while only 8% of total capital come from non-equity sources.

Thus the relative contribution of members to the running of the associations could be drawn from groups' equity capital which consists of share capital savings and deposits, reserves and cash in hand at bank. A larger percentage of 61 of the groups' equity capital is derived from shares bought by members (Table 9). This is followed by savings and deposits which contributed almost 25% of equity capital while cash in hand and at bank contributed merely 8% of equity capital.

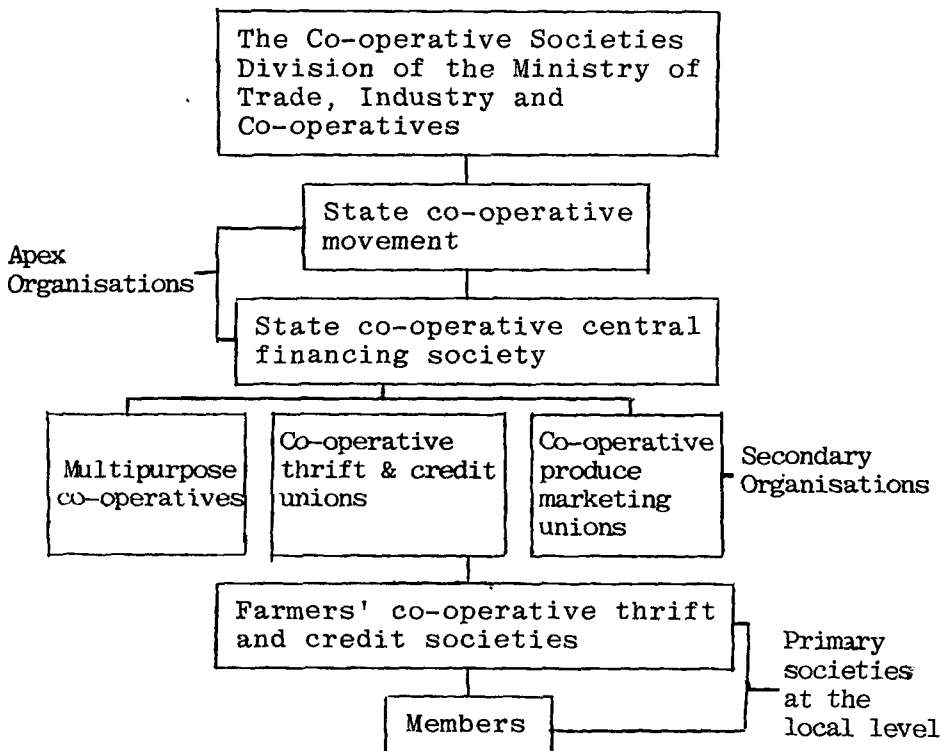
Table 9  
Sources of Equity Capital

<u>Sources</u>	<u>Amount</u>	<u>% of Total</u>
Share Capital	413,992	61.2
Savings & Deposit	167,600	24.8
Reserves	38,163	5.6
Cash in hand & Bank	56,456	8.4
Total	<u>676,141</u>	<u>100.0</u>

Source: Field Survey, 1981/82.

Lastly the unions merge or combine together to form an apex organisation referred to as the Oyo State Co-operative Movement. It is the responsibility of the movement to see the co-ordination and supervision of the various activities of member unions and societies. Its membership is drawn from co-operative societies and unions of all types, although the thrift and credit as well as multipurpose co-operatives form the bulk of its membership. It procures loans from various commercial banks as well as the Nigeria Agricultural and Co-operative Bank.

Figure 1. Organisation Chart of State Co-operative Movement.





## An Economic Analysis of Co-operatives Supply of Credit to Members

One of the main functions of co-operatives is to supply members with loans. Members depend on their associations as supplier of loans. Various factors which may affect the amount of loans issued by the groups include their equity and non-equity capital and the amount of loans overdue. The interest rate is another important determinant. In the analysis this factor has not been included because all groups charged a fixed rate of 12% during the period under study. Co-operatives' equity comprises share capital, reserves savings and deposits.

An attempt is therefore made in this section to examine how these factors influence amounts of loans supplied to members of the societies studied.

### The Co-operatives Loans Supply Model

The loans supply model of co-operatives can be put as follows:

$$Y = f (Sc, R, SD, LO, U)$$

where

- Y = Amount of loans supplied in Naira
- Sc = Share capital of groups in Naira
- R = Reserves of groups in Naira
- SD = Savings and deposits of groups in Naira
- LO = Amount of loans overdue
- U = Disturbance term

### The Dependent Variable:

The data on the amount of loans issued by all the group in the areas of study are collected from the records of the associations and the various ministries of trade, industry and co-operatives. The data analysis was for the 1981/82 financial year.

### The Independent Variables:

Share Capital. Share capital forms the greatest part of the equity capital of the groups, as earlier indicated in this paper. It is made up of the members' share in the groups. It therefore follows that the amount dispersed will depend on the available share capital of the co-operatives and it is assumed that

the greater the share capital of the co-operatives the greater would be the amount of loans supplied by the groups to the members.

Reserves. Reserves come last in their contribution to equity capital of co-operatives. Reserve is that sum of money that is kept in the associations to meet unforeseen expenses. It is assumed that the higher the reserve of the groups, the higher will be the amount of loans disbursed to co-operative members.

Savings and Depòsits. As the name implies, this is the amount of money deposited by the members in their associations. It ranks next to share capital in its contribution to equity. Thrift and credit co-operatives encourage savings among farmer-members. Savings are part of the unions' equity, so it is assumed that the more the savings and deposits the greater will be the loans made by the groups to the members.

Amount of Loans Overdue. Loans issued to members by the societies are expected to be paid back. Loans overdue are loans that have been due to be paid but are still unpaid. Suppliers of credit are always willing to give out loans when they are sure of repayments because overdue loans often reduce the amount of capital that is available for the operation of the unions. It is assumed therefore that the higher the amount of loans overdue to the associations, the lower the amount of loans available to members.

### Estimating Procedures

Ordinary least square was applied to estimate the supply of loans by the co-operatives.

The linear function was also adopted in the analysis. The estimated equation is of the form:

$$Y = 17521.0456 + 0.7753 Sc^{**} + 0.1547R^{***} + 0.0569SD^{**} -$$

(0.73032)      (0.7610)      (1.6492)

$$0.2123 LO^{*+U}$$

(0.8713)

$$R^2 = 0.9082 \quad SE = 0.0982$$

\* indicates significance at 1% level

\*\* indicates significance at 5% level

The variables are previously defined. The figures in brackets are the standard errors of estimate. The result of the analysis indicates that the coefficient of multiple determination ( $R^2$ ) is found to be 0.9082. This shows that the independent variables have explained almost 91% of the variation in the amount of loans issued by the associations. The coefficient of the independent variables were positive except for amount of loans overdue which was found to be negative. This indicated that share capital, reserves, savings and deposits affect positively the amount of loans supplied by the associations, while loans supplied by the associations are adversely affected by the amount of loans overdue. It follows therefore that overdue loans limit the ability of groups to supply loans to members. The implication of this result is that overdue loans can strain the liquidity of co-operatives and tends to constrict the availability of credit to members.

### Recommendations

The following recommendations could be drawn from the result of the findings of this research; since credit co-operatives prove to be a major source of credit in the savanna zone, it is recommended that more farmers should be encouraged by the state governments to join them. This could be done by adequate propaganda through the radio, extension agents and agricultural shows. In addition, efforts should be made by co-operatives to collect overdue loans and investigate repayment capacity of members before granting loans.

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# CO-OPERATIVE LEGISLATION IN MALAYSIA

## A NEED FOR REFORM\*

by

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In many developing countries co-operatives and other similar institutional forms have long been advocated as mechanisms for facilitating the rural modernisation process and for restructuring rural product and factor markets. In Malaysia co-operatives and farmers' associations are two major policy instruments used to facilitate the decentralisation and diffusion of planning and decision-making prerogatives to the grass roots, and to institutionalise farmer participation in rural modernisation.

Co-operatives were introduced in Malaysia in 1922 and were primarily designed to ameliorate structural weaknesses in the rural credit market and to provide market alternatives to rural producers; and to eventually replace rural capitalistic enterprise. The credit orientation in the co-operative movement was also evident in the urban and plantation sector where thrift and loan co-operative societies were encouraged to provide an alternative and cheaper source of credit and an outlet for excess income.<sup>1</sup>

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Co-operatives continued to play an important role in socio-economic development in Malaysia during the post-war period. Co-operatives were seen as viable institutions for linking grassroot level initiatives to the process of rural development and an attempt was made to base the development of the rural sector on a network of inter-linked mono-functional primary co-operative societies.<sup>3</sup>

The limited success of various co-operative schemes and official disillusionment with co-operatives as viable instruments for rural development led to increased policy emphasis on farmers' associations in the post 1963 period. Farmers' associations, which were initially created to undertake extension activities and to provide a secondary role to co-operative societies, were assigned a multipurpose role in agriculture. A scheme for establishing farmers' associations on an area basis was launched with massive Government support in 1967. However this scheme did not bring about the desired results but led to the creation of a parallel and competing institutional infrastructure in the rural sector. In an attempt to resolve conflict and integrate institutional forms of servicing the rural sector, the Farmers' Organisation Authority was created in 1973.

Co-operatives in Malaysia are expected to play a crucial role in the attainment of the twin objectives of the New Economic Policy viz., poverty eradication and restructuring of society. Co-operatives in the agricultural sector are seen as vital agencies for facilitating modernisation of the sector by improving access to, and control of, the various factors of production by farm producers which will help to reduce poverty and improve standards of living.

Wells<sup>2</sup> observes that co-operatives can play an important role in the restructuring of society. Co-operatives have been used in the past to provide credit and marketing facilities and to mobilise savings as well as facilitate land development. The non-tangible benefits of co-operatives like increased participation in decision-making, development of managerial skills, the spreading of economic opportunities and increased social responsibilities are important development

goals that co-operatives can help to nurture in a newly-developing country like Malaysia.

In order to enable co-operatives to maximise their potential in developing countries it is necessary to ensure that the legal framework within which co-operatives operate is conducive for co-operative development. Since co-operative legislation in many developing countries was drafted under different economic and political conditions there is an urgent need to review the appropriateness of co-operative legislation in the light of the various developments that have taken place in the co-operative movement.

### Co-operative Legislation and Malaysian Co-operative Societies

In examining the relationship between co-operative societies and co-operative legislation, Munkner<sup>3</sup> notes that co-operative societies were not originally institutions of law but an economic and social phenomenon which developed out of attempts to deal with human and economic problems. Co-operative laws were promulgated to grant official recognition to co-operatives as a form to organise self-help on the basis of solidarity. Co-operative legislation served to protect interests of members of co-operative societies and to prevent the misuse of the co-operative form by creditors and others seeking to propagate self-interest.

Co-operative legislation in most developing countries is based on the concept of State-sponsored co-operation in which the State plays an active role in the promotion and sponsorship of co-operative societies.

Co-operative laws not only provide for the constitution, internal structure and working of the co-operative society but also cover the relationship between co-operative societies and the Government. In particular, co-operative laws govern the relationship between Government machinery for co-operative development and the co-operative society which this machinery has to promote, supervise, audit and eventually control. Co-operative legislation in developing countries contains elements of public law while in Western Europe, for instance, co-operative law is considered to be part of civil law, with co-operative societies being defined as autonomous

associations under private law, and the role of the Government is limited to the registration and cancellation of registration of such societies.<sup>3</sup>

Co-operative legislation in Malaysia - as in other countries which have experienced British Colonialism - is modelled on the classical British Indian pattern of co-operation which is based on the concept of State-sponsored co-operation. The long-run objective of this form of co-operation was the creation of autonomous, self-reliant co-operatives of the Raiffeisen and Rochdale type. However it was recognised that State-sponsored co-operatives in the transition period had to depend on a specialised government agency headed by a registrar of co-operative societies for advice, guidance, technical know-how and financial assistance.

In this paper an attempt is made to examine the legal framework within which Malaysian co-operative societies operate and to suggest possible areas for reform.

Co-operative societies in Malaysia are governed by the

- a) Federation of Malaya Co-operative Societies Ordinance No. 33 of 1948,<sup>4</sup>
- b) Chapter 66 of the Laws of Sarawak 1949 for the State of Sarawak and
- c) The Co-operative Societies Ordinance No. 3 of 1958 for the State of Sabah.

The focus of this paper is the Co-operative Societies Ordinance\* of 1948, and the Co-operative Societies (Amendment and Extension) Act, 1976, which was passed to amend the 1948 Ordinance.<sup>5</sup>

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\*Co-operative societies in Malaysia were initially governed by the Co-operative Societies Enactment of 1922 which was enacted primarily for the regulation of credit co-operative societies. In the immediate post-war period, the Co-operative Societies Ordinance of 1948 was passed to provide for the regulation of different types of societies. This Ordinance which



The Co-operative Societies Ordinance of 1948 was enacted to provide for the constitution and control of co-operative societies. The Ordinance contains a preliminary section defining terms used in the Ordinance, a section covering registration of societies, in which the registering body, the societies which may be registered, and the conditions for registration are specified. The duties and privileges of societies and the constitutional structure of such societies are spelt out in the third section, while the fourth section embraces the rights and liabilities of members of co-operative societies. The fifth section of the Ordinance deals with procedures relevant to the management of property and funds of registered co-operative societies, while sections six to nine deal with administrative functions of the Registrar including audit, inspection and enquiry, dissolution, surcharge, attachment and disputes. The subsidiary legislation or Rules appended to the Ordinance contained in the tenth section of the Ordinance empowers the Minister to "make all such rules as may be necessary for the purpose of carrying out or giving effect to the principles, and provisions of the Ordinance". The final section of the Ordinance provides the Minister with special powers to exempt societies from registration requirements, provisions of the Ordinance and from company tax and stamp duties.

The Co-operative Societies (Amendment and Extension) Act 1976 was the result of the deliberations of a committee appointed in 1967 by the Commissioner of Co-operative Development to examine the inherent weakness of the 1948 Ordinance. The 1976 Act was

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was on the Model Co-operative Societies Bill of the Colonial Government repealed the 1922 Enactment and all other specific legislation for the Straits Settlements, Kedah, Perlis, Johor, Kelantan and Trengganu and was amplified by the Co-operative Societies Rules 1949 of the Co-operative Societies Ordinance 1948.

primarily an Amendment to the 1948 Ordinance and the significant amendments include an attempt to revise the terminology used in the Ordinance as well as a provision for the appointment of a Registrar-General of Co-operative Societies for Malaysia empowered to appoint registrars of co-operative societies and confer upon them powers assigned to him under this Act. Other amendments include a provision for the accounts of co-operative societies to be audited annually by the Auditor General, and the minimum membership of co-operative societies was increased from ten to one hundred. A new provision contained in Section 18 of the Act makes it incumbent upon societies to credit to a capital service account all capital gains arising from the sale or revaluation of its fixed assets and investments, and capital gains thus arising to be issued in the form of bonus shares to members with the proviso that the shares cannot be liquidated except when a member dies. Other new provisions contained in Section 21 of the Act include specifications requiring societies to keep accounting and other records, to explain the transactions and financial position of societies as well as empowering the Registrar-General to subject the accounting and other records of registered societies to inspection by an auditor acting for a member or officer. Penalties for contravention of the provisions contained in this section are also specified.

#### The Major Problem Areas of the Legislation and Suggestions for Possible Reform

The following issues will be discussed:

1. Government policy related to the promotion of co-operatives.
2. Registration of co-operative societies, powers of the Registrar, provisional registration and probationary societies.
3. Audit, supervision and control of co-operatives.

## 1. Government Policy Related to the Promotion of Co-ops

In Malaysia as in other developing countries where the minimum prerequisites for co-operative development are lacking, the government has to provide not only the legal framework for co-operative societies but also to undertake measures to initiate, promote and sponsor co-operative societies. While it is recognised that Government involvement is imperative in the initial stages of co-operative development, the creation of a self-reliant co-operative movement is dependent on the eventual phasing out of this involvement. The objectives of Government sponsorship of co-operative societies needs to be identified and laid down in a policy statement. This statement should define fields of activities of societies that may be registered, the machinery for the promotion of co-operatives and the relationship between governmental and non-governmental institutions for co-operative promotion.<sup>7</sup> The statement should also refer to the phasing out of Government involvement in co-operatives in a given period. This would enable co-operatives to function as autonomous self-help organisations in the long run.

In Malaysia where the Government plays a crucial role in the initiation and sponsorship of co-operative societies, there is a need to specify the objectives of Government sponsorship of co-operatives. These objectives may be issued in a policy statement which should also cover issues relating to relationship between the co-operative society and the Government machinery for promoting co-operatives which in the Malaysian context is the Department of Co-operative Development. Moreover since co-operative societies are expected to perform economic and social functions the economic and social objectives of co-operatives should be specified in the law. If the Government wishes to create a self-reliant and dynamic co-operative movement in the long run, then there is a need for a clear statement of intention for the eventual phasing out of Government involvement.

In addition the Government has to lay the foundation for the establishment of organisation(s) which will undertake the responsibility for promoting, organising and guiding the affairs of the co-operative societies as the Government phases out its involvement. Co-operative legislation has to be amended in order to contain provisions for the creation of such an organisation(s).

### Registration of Co-operative Societies, Powers of the Registrar, Provisional Registration and Probationary Societies

A second area of concern is that pertaining to the registration of co-operative societies. The issues that arise with respect to registration are:

- a) formation of co-operative societies;
- b) the types of societies which may be registered and requirements for registration;
- c) powers of the registrar; and
- d) appeals against registration.

In the Malaysian legislation the definition of co-operative societies is contained in Part II section 4 where a society that may be registered under the Ordinance is defined as

"a society which has its objectives the promotion of the economic interest of its members in accordance with co-operative principles".

(Co-operative Societies Ordinance 1948, Part II Section 4).

The above definition of co-operatives contained in the Ordinance has been criticised as being too vague. Such a vague definition lends itself to possible exploitation by institutions which may choose to be registered as co-operative societies in order to derive benefits like tax exemption that are accorded to co-operative societies under the Ordinance. In order to resolve this it has been suggested that there should be a definition of the co-operative organism by an enunciation of co-operative principles. In the first instance the co-operative law should contain a precise definition of the term 'co-operative' which would serve to distinguish co-operative societies from other types of

organisations. The legal definition of a co-operative must be broad enough to cover all possible forms of co-operative societies, and restrictive enough to exclude any misuse of this form of organisation for other than co-operative purposes. In particular the legislation should contain a clear definition of the role of the co-operative society in the national economy and the attitude of the Government towards co-operatives should be contained in a clear policy statement. In addition the definition of the co-operative principles underlying the co-operative legislation should be laid down in a preamble to the Act. The definition of the term 'co-operative society' should be reduced to a selection of characteristics which have a direct influence on the organisational structure of co-operative societies and also be specified in the Act.

The registration of a co-operative society makes it a body corporate with all the powers and duties provided for under the co-operative legislation. Theoretically, there are two possible ways to make provisions for registration: registration according to the system of normative conditions, and registration according to the system of concessions.<sup>8</sup> Under the system of normative conditions certain well-defined minimum requirements are stipulated in the law and all societies that fulfil these requirements are entitled to registration. In cases where the system of concessions is applied the decision to register a new society is left to the discretion of the registering authority. As in the case of the system of normative conditions the law-makers stipulate certain minimum requirements before registration. However, even when all the requirements are met the registering officer may still refuse to register a particular society.

The system of concessions is applied in most countries of Asia and Africa, including Malaysia, where the decision to register new societies is left to the discretion of the registering authority. The powers of the Registrar with respect to registration of co-operative societies in Malaysia are contained in Part II Section 7 of the Ordinance. Under this section, when the Registrar is satisfied that a society has complied with the provisions of the Ordinance and its by-laws are acceptable, he is given the final authority and discretion of allowing or refusing registration. The Minister, under Section Eleven of the Act, is empowered to exempt societies from registration requirements. The wide discretionary powers given to the registrar of co-operatives has in many developing countries resulted in the formation of pseudo-co-operatives. Since co-operatives have been viewed as viable institutions for socio-economic development, governments in developing countries have given special incentives and privileges to persons willing to form co-operatives. The problem that could arise is that these provisions could serve as encouragement for bogus co-operatives which may be created solely for the purposes of qualifying for such privileges. It is therefore necessary to define the types of societies that may be registered and the requirements before registration should be spelt out in the law. In addition there is a need to verify whether or not these requirements are met before registration.

In several developing countries governments in their zest to encourage formation of a large number of co-operative societies so as to increase and maximise membership participation in local organisations, may encourage the formation of artificial, non-viable co-operatives. Such co-operatives may never become independent economic entities. In order to resolve this it has been suggested that co-operative laws expressly require a thorough socio-economic survey to be conducted by government officers in charge of co-operative development to verify whether the requirements before registration are in effect met by the new society. New co-operative societies should be granted a pre-co-operative status and a

specific time period in which the future viability of such societies can be assessed. The pre-co-operative which is defined as a co-operative society in its formative stages should be protected by the law and granted a pre-co-operative status.

In the Philippines village level co-operatives (*Samahang Nayons*) are given a pre-co-operative status of two years, after which these societies are either registered or de-registered. The advantages of registering and protecting pre-co-operatives are:

- a) this would serve to legalise current practices existing in many developing countries;
- b) this would prevent the proliferation of parallel types of organisations with similar objectives under different authorities;
- c) the pre-co-operative status would serve as a trial period during which members can receive insights into co-operative ideology;
- d) in the case of government-sponsored co-operatives the period of government intervention and government involvement, financial or otherwise, can be limited to pre-co-operatives in the probationary period.

Once pre-co-operatives become fully-fledged co-operatives they should be given their autonomy and this will help to weed out non-viable co-operatives. However it must be emphasised that legislation pertaining to pre-co-operatives and fully-fledged co-operatives should be different. The legal provisions for pre-co-operatives should be simple provisions laid down in the law to suit the needs of pre-co-operatives e.g. requirements for full registration, duration of probationary period, sanctions for exceeding trial period and management of probationary societies, etc.

In Malaysia there is no law currently providing for the registration of pre-co-operatives. Several factors have to be taken into account before such a legislation is enacted because it may require re-classification of existing co-operatives into pre-co-operatives. The re-classification process besides being a cumbersome one may also result in co-operatives in certain priority sectors being delegated to a 'lower' status. This could give rise to several problems in a country where the selection of

development priorities is dictated not only by purely economic considerations but also socio-political considerations.

However, since co-operatives can play a useful role in the implementation of the New Economic Policy in Malaysia, attempts to provide an appropriate legal framework for these co-operatives should take account of the fact that many co-operatives in their initial phases cannot meet the stringent requirements of fully-fledged co-operatives. As such a legal provision distinct from co-operative legislation could serve a useful role in protecting such co-operatives in their initial stages.

The Registrar of Co-operative Societies in Malaysia as in other countries of the region is vested with powers of arbitration and settlement of disputes, in addition to being given the power to register co-operatives. This practice has been criticised on grounds that perhaps a conflict of interest may arise when the registering authority is also the authority given powers of arbitration. The principles of justice require that justice be separate from executive authority. In order to prevent conflicts of interest it is suggested that an independent body such as a co-operative tribunal be set up in order to look into appeals and settlement of disputes.

### Audit, Supervision and Control of Co-operatives

The third area of concern relates to powers of audit, supervision and control of co-operative societies. In Malaysia provisions regarding audit, supervision and control are specified in Part VI of the Ordinance. Internal audit is done by members of the society elected by the general assembly while external audit may be done by accredited auditors recognised by the Registrar or by the audit staff of the Co-operative Development Department. An audit fee may be charged by the Registrar.

Since co-operatives have as their primary objective the promotion of the economic interests of members, the management of co-operative enterprises has to adopt a business policy that is different from the



business policy of an ordinary commercial enterprise. Co-operative societies therefore have to be audited in a more comprehensive manner than a commercial enterprise. In order to safeguard the interests of members of co-operative societies it may be prudent to separate external audit functions from control and supervision. External audit can be undertaken by an independent body, an independent audit federation or a co-operative audit department. Co-operative legislation should clearly specify the qualifications of auditors, and the scope of co-operative audit. The Co-operative Societies Act of Singapore 1976 could serve as a model for a reform of co-operative legislation with respect to audit, control and supervision. The Registrar of Co-operative Societies in Singapore is empowered to delegate his power to audit co-operative societies partly or wholly to the apex organisation as soon as that organisation has established an audit section. Despite allocating these powers the law still requires the Registrar to exercise a supervisory role over the audit conducted by the apex organisation.

Bearing in mind that maintaining an efficient audit service for primary co-operative societies is an expensive proposition, grants for audit support can be solicited from the Government or from private institutions. In the case of small co-operative societies whose incomes are insufficient to meet audit costs provisions can be made for these costs to be assumed by the Government.

In this paper an attempt has been made to review only three areas of co-operative legislation in Malaysia. The other areas of the legislation that have to be discussed include the legal status of institutional members in primary societies, non-members in co-operative societies, issues relating to property and funds of co-operatives, amalgamation and arbitration.

The term 'institutional members' refers to legal bodies such as other co-operatives, municipalities, trade unions and schools. The basic issue that arises with respect to institutional members is whether or not the legal provision should allow membership of primary societies to include institutional members. In the case of Malaysia, membership of a co-operative

society is open to members and to registered societies; however it is not spelt out whether this applies to all tiers of the co-operative society.

The issue of non-membership participation in co-operative societies revolves around the question of whether or not persons who are non-members can be elected to serve on boards of co-operative societies. In Malaysia Section 37A of the Co-operative Societies Ordinance empowers the Registrar to appoint a person or a body corporate to manage the affairs of the society in cases where the committee of the society has been dissolved.

The provisions regarding property and funds of registered societies is contained in Part V of the Malaysian Ordinance with prescriptions for various activities in which the society may invest its funds in Section 33.

The Co-operative Societies Ordinance does not contain provisions for amalgamation, and voluntary amalgamation among registered co-operative societies is regulated by the Co-operative Societies (Amalgamation, Capital Gains and Co-operative Fund) Rules 1979.

Provisions for settlement of disputes are contained in Part IX of the Ordinance which empowers the Registrar to settle the dispute himself or to refer it for disposal to an arbitrator or arbitrators. Appeals against decisions taken by the arbitrator(s) is made to the Registrar whose decision is final and cannot be questioned in court.

### Conclusions

It is evident from the preceding discussion that co-operative legislation needs to be reviewed in view of the changes that have occurred in the Malaysian Co-operative Movement. An appropriate legal framework is a fundamental prerequisite for co-operative development since the co-operative legislation not only protects members' interests by preventing misuse of the co-operative form but also provides guidelines for the growth and development of the co-operative movement. However it must be emphasised that a review of co-operative legislation resulting in subsequent reform will not in itself

ensure that co-operatives will succeed as tools of development.

In order for co-operatives to serve as useful developmental tools some fundamental prerequisites are necessary. Wells<sup>9</sup> classifies them as external and internal. External prerequisites include a well-developed bureaucracy, clearly defined policy related to co-operative societies and their development, rational systems of production, a suitable physical infrastructure and appropriate legislation. Internal prerequisites are managerial expertise and access to capital and markets which ensures the continued viability of co-operatives and ideological commitment and loyalty which can be reinforced through the process of co-operative education.

Measures to reform co-operative legislation must therefore be accompanied by other Government measures which would ensure that these prerequisites are met. Their absence would not only result in co-operative inefficiency but also retard co-operative development.

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THEORETICAL, PRACTICAL AND LEGAL ASPECTS OF ESTABLISHING  
CO-OPERATIVE AUDIT SYSTEMS IN DEVELOPING COUNTRIES,  
WITH SPECIAL REGARD TO ASEAN COUNTRIES

by

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Introduction

Co-operative auditing has been identified for many years as one of the key problem areas in establishing effective co-operative structures in developing countries. In the Association of South-East Asian Nations (ASEAN) region this can be traced back to 1966, when the Afro-Asian Rural Reconstruction Organisation (AARRO) presented a model of co-operative legislation for countries of Africa and Asia at a conference in Nairobi.

During the discussions on the revision of Singapore's co-operative law in 1974/75, more appropriate legal provisions for co-operative audit were given great attention. For many years a project to establish co-operative audit federations has been underway in Indonesia, and in 1982 the ASEAN symposium on co-operative auditing was held in Manila to formulate guidelines for the further improvement of co-operative auditing in the region. At present there are discussions on implementing an Integrated National Co-operatives Audit System (INCAS) in the Philippines.

From all this it is evident that problems relating to co-operative auditing are of direct and immediate interest in the ASEAN region, and particularly in the Philippines.

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## 1. Theoretical Aspects of Co-operative Audit

### a) Special Features and Problems of the Auditing of Co-operative Societies as Business Organisations and Development Tools

Co-operative societies are a special form of business organisation. As incorporated legal entities they participate in the economic life of a country like any other business organisation. However, unlike other business organisations, the main objective of which is efficient management for the acquisition of profit, co-operative societies have as their principal object the promotion of the economic interests of their members in their dual role as co-owners/shareholders and customers.

While in ordinary commercial business organisations the interests of the co-owners/shareholders and management are usually the same, i.e. both aim at maximising the profit of the enterprise in dealings with their customers or market partners, co-operative management has a more complicated aims system. It has to strive for the long-term operational efficiency and profitability of the co-operative enterprise, at the same time ensuring optimal member promotion. This dual policy of co-operative management is clearly expressed in the maxim for action of co-operative managers as formulated by Draheim in the 1970s:

"Always act in such a way that the objective interests of the majority of the members are promoted without calling the profitability of the co-operative enterprise into question".

From the theoretical point of view, member promotion in transactions between members and the co-operative enterprise means that the management of the co-operative enterprise renounces possible gains or, in other words, what the members receive as promotional services, reduced cost or increased earnings, is given at the expense of the co-operative enterprise.

This is one major reason why co-operative enterprises need a special type of audit. An audit of the accounts, the balance sheet and the profit and loss account of a co-operative enterprise are not sufficient to assess

the performance of co-operative management in achieving its dual objects of member promotion and profitability of the co-operative enterprise.

In co-operative societies the financial audit is required, as in the case of every incorporated business organisation, in order to verify that the accounts are kept in a proper way and are correct, complete and in accordance with the law, and that the financial statements give a fair picture of the situation of the organisation. But, in addition there is need for an assessment of the performance of management in promoting the interests of the members in accordance with the objectives of the society, and for ascertaining that a proper balance between member promotion and the profitability of the co-operative enterprise is kept.

Such comprehensive co-operative audit requires special knowledge and skills on the part of the auditor, who has to understand both ordinary financial audit and the audit of management performance, and also to assess the possible and actual volume of member promotion.

Although in countries where co-operative societies are regarded by government as development tools, the peculiar relationship between co-operative enterprise and members and the resulting problems of co-operative audit remain the same; additional problems arise. The government which promotes co-operatives and uses them as instruments for the implementation of its development policy is interested to ascertain that the state-sponsored co-operatives play their role effectively. Under such circumstances the objectives of a co-operative society become even more complicated and an audit in terms of assessment of the degree of achievement of the society's aims becomes more difficult.

#### b) Scope and Purpose of Co-operative Audit

At the ASEAN symposium on co-operative auditing held in Manila in November 1982 co-operative auditing was defined as a comprehensive audit which encompasses both financial and management/operational audit. The financial audit included:

- examination of financial statements,
- appraisal of accountancy and operational control,
- compliance with statutory requirements and
- verification of assets and liabilities

in order to certify that the accounts, annual reports, balance sheet, and profit and loss account give a true and fair view of the state of affairs of the co-operative society at the end of a financial year.

This financial audit - which is needed in all incorporated business organisations with a limited liability - is the prerequisite for the second component of co-operative audit, the management/operational audit.

The management audit includes:

- appraisal of the economic situation of the co-operative enterprise (valuation of assets, liquidity, cash flow, profitability),
- appraisal of the quality of management performance in carrying out its responsibilities (effective organisation of business, balance between expenditure and income), and
- assessment of the degree of attaining the objectives of the co-operative society.

This last point shows the essential difference between co-operative audit and the comprehensive audit of other business organisations. In ordinary commercial business organisations a management audit is carried out only for special reasons, because it is difficult and involves high costs. When such a management audit is made it only covers appraisal of management performance in relation to the operational efficiency of the enterprise under review, i.e. 'institutional efficiency', in conformity with the objectives of commercial businesses.

In co-operatives the management audit goes beyond the assessment of institutional efficiency: it also covers an evaluation of operations and management performance to determine whether and to what extent the members' interests are promoted, i.e. 'member-orientated efficiency' and, where state-sponsored co-operatives serve as development tools, of the



society's achievement of development goals ('development-oriented efficiency').

However, this is not the only difference between the management audit of commercial businesses and co-operatives. As rightly indicated in the consolidated report of the ASEAN symposium the co-operative audit does not stop at the level of detecting mistakes, errors or fraud, but goes further by offering advice on how to improve the quality of management performance in future, how to prevent errors or fraud, how to reach a proper balance between institutional efficiency, member-orientated efficiency and development-orientated efficiency.

The co-operative audit also involves the governing bodies of co-operatives, i.e. the general meeting of members, the supervisory council when it exists and the board of directors, by requiring the auditors to explain and discuss the results with the directors and office bearers of the society, and by reading the audit report in part or whole to the members at the general meeting.

Finally another characteristic feature of co-operative audit is the follow-up of correction of mistakes discovered during audit in order to help to introduce better management practices.

### c) Types of Co-operative Audit

The annual or biennial comprehensive statutory audit is only one of several types, the annual audit being the most frequently used and most important one.

Audit of the formation process as a requirement before registration is another important type, especially in countries where the formation of co-operatives is promoted by government as part of a deliberate policy. The aim of this audit is to verify:

- whether all requirements for registration are met and
- whether the new society is likely to be economically viable and successful.

It includes among other things an evaluation of the co-operative capacity of the prospective members, availability of leadership, management and capital (c.f. section 8 and 2nd schedule (section 7) Co-operative Societies Act, 1979, No 17 of 1979, Singapore).

In countries with state-sponsored co-operatives the long-term development of a co-operative movement depends to a large extent on the seriousness of this type of audit. Where only viable new ventures are registered as co-operative societies, the chances for the development of a self-sustaining and self-regulating co-operative movement are good, whereas when registration requirements are loose, non-viable co-operatives usually become a permanent financial burden on government, and have a very negative effect on the overall reputation and development of the co-operatives in that country.

Finally, there are special audits provided for in the co-operative laws of the ASEAN countries in the form of inspection and enquiry to be carried out by the co-operative departments ex officio or at the request of the office bearers or members of co-operative societies and of creditors.

While the inspection is an ad hoc investigation carried out either as a routine or as a surprise inspection by a person authorised by the Registrar/Director of Co-operative Societies, the enquiry is usually a more detailed investigation into the constitution, financial situation and working of the society and may lead to the liquidation of the society if serious problems or mistakes are discovered.

#### d) Co-operative Audit System

The term 'co-operative audit system' usually refers to a system of co-operative organisations at different levels which are connected with one another by agreement, contract, by-laws or legal provisions, to collaborate in the field of audit.

Primary co-operatives affiliated to the system agree to be audited by specialised co-operative audit institutions (audit federations or unions, special audit associations, parastatal organisations etc.) which provide a comprehensive co-operative audit, including consultancy and advisory services; development of uniform systems of accounts, education and training facilities for accountants, co-operative office bearers, managers and auditors; information systems including comparative analysis of performance of audited co-operatives, elaboration of index figures permitting individual societies to assess their performance as compared to average performance of

similar co-operatives during a given period; common services like data processing etc.

If organised in a co-operative audit system, co-operative societies can be offered audit services which are tailored to meet the special needs as described earlier:

- comprehensive audit combined with advice,
- follow-up of weak points discovered during audit,
- audit carried out by specially trained auditors, familiar with the peculiarities of assessment of efficiency of co-operative enterprise,
- reduction of cost of audit by improvement of accounting procedures and professional standards of accountants and management.

In such a co-operative audit system the institution carrying out the audit assumes a role that goes far beyond the provision of audit services. It becomes an important element in the vertical structure of the entire co-operative system within which the individual affiliated co-operative societies gain strength by close collaboration with the audit institution and with other affiliated societies (vertical and horizontal integration). It can act as a representative of the interests of the affiliated societies, it can protect the elected office bearers and members against the power of management, enhance the confidence of business partners in the credit worthiness and reliability of professionally-audited co-operatives, and can represent the interests of the co-operative movement as a whole.

## 2. Practical Aspects of Co-operative Audit

### a) Who should carry out the Audit?

There are three different categories of persons who usually carry out the audit of co-operative societies:

- independent chartered or certified public accountants;
- government officers;
- auditors employed by co-operative audit federations or unions.

The question which of these three categories of auditor is best suited to carry out the audit can only be answered by considering the role co-operatives are expected to play in the respective country, the purpose for which the audit is carried out and the type of audit to be performed.

Under the co-operative laws in force in the ASEAN countries audit of the formation process and special audit are usually the task of government officers of the co-operative department, while performance of the annual statutory audit is shared among any of the three categories of auditors mentioned earlier.

Where co-operatives work closely together in a vertical structure and have as their primary object the promotion of the economic interest of their members, a co-operative audit with the main emphasis on assessment of institutional efficiency and member-orientated efficiency is best carried out by auditors employed by a co-operative audit federation.

Where co-operatives work as medium or large-scale enterprises without being integrated into a vertical system of co-operative organisations, any of the three categories could perform the audit with similar results.

Where large numbers of small or economically weak co-operatives are sponsored by government and are used primarily as development tools, a free co-operative audit by officers of a government department may be the only way to provide audit services, even though such services will generally be more like supervision and control rather than comprehensive financial and management audit combined with advice and consultancy.

#### b) How to Safeguard the Required Standard of Audit

The audit of business organisations is usually the prerogative of government which however, does not have to carry out the audit itself but can delegate to qualified persons or appropriate institutions by issuing audit licences, subject to certain conditions regarding the standards of audit, and with power to withdraw the audit licence if these are not met. Furthermore, auditors qualifications can be specified in laws, regulations, circulars or by-laws of audit institutions including conditions for

recruitment, training schemes, examinations, conditions for promotion and for dismissal, as well as the rights and responsibilities of auditors including their liability for damages.

Co-operative auditors are either university graduates who receive additional theoretical and practical training, or experienced practicing co-operators, who have to pass an entry examination before they can join the training courses leading to co-operative auditing.

In many countries co-operative auditors are members of professional organisations of certified public accountants and as such are bound by strict standards of the professional codes of conduct. Furthermore, they have to work according to general audit guidelines prepared either by their professional organisations or by their employers (e.g. co-operative audit federations, co-operative departments, audit firms). Another safeguard to maintain the required standards of co-operative audit is ensuring that auditors enjoy some independence from: their clients, their employers and government. This can be achieved by laws, regulations, circulars or by-laws and by providing for adequate conditions of service, including a good salary.

In order to avoid conflicts of interest it is not usually legally permitted for relatives or business partners of the owners or managers of an enterprise to work as its auditors.

### c) How to Finance Co-operative Audit

As a rule audit fees should be paid by the audited enterprises as a normal part of operating expenditure. However, in the case of a comprehensive co-operative audit its costs are relatively high and the co-operative enterprise often small and financially weak so that it cannot afford the full costs or to pay at all, even though they need audit services. This is the reason why in many developing countries audit of co-operative societies is offered as a free service by the government department in charge of promoting co-operatives, or by special audit institutions sponsored by government.

As long as the co-operatives are small and few in numbers, free audit is a useful service which government can render. However, with growing numbers, size and complexity of business the expenses of an effective audit service for all registered co-operatives usually exceed the financial means at the disposal of the co-operative department or audit institution. In this case the audit is not carried out at regular intervals, qualified audit staff cannot be recruited and maintained, and the standard of audit deteriorates. Under such circumstances the privilege of free audit has to be abandoned and audit fees have to be collected from the audited societies, either in the form of contributions to an audit and supervision fund, or as audit fees.

Co-operative departments which are short of funds and of well-qualified auditors often require larger co-operatives to have their accounts audited by authorised public accountants or audit firms. They have to pay high audit fees and usually do not receive the comprehensive audit services required by a co-operative enterprise.

Where it is planned to encourage the formation of self-regulated, self-controlled and self-financed co-operative audit federations, free audit by government auditors may become a major obstacle. Co-operative audit federations will have to finance the operations by raising audit fees, annual subscriptions and charges for special services, which co-operative societies may be reluctant to pay if they can receive similar services free of charge from the government agency. Hence a deliberate policy to promote the establishment of co-operative audit federations and to delegate the audit function in part or totally to them can only be successful if audit fees are charged for every type of audit irrespective of who carries it out.

During their initial stages, co-operative audit federations can be promoted by grants from external funds. However, this can only be a temporary measure with degressive, self-liquidating contributions, if the audit federations are supposed to become independent, self-reliant co-operative institutions.

## Legal Aspects of Co-operative Audit

### a) General Considerations

Statutory annual audit of incorporated business organisations with limited liability was introduced by the lawmakers to secure a minimum of honesty in business, to ensure correct and complete reporting in the form of financial statements and annual reports of management; and in the case of co-operative societies, to protect members, customers and business partners of such organisations, and to ensure that the legal form of registered co-operative societies is only used for co-operative purposes.

This was achieved by regulating the scope and frequency of audit, the qualifications, rights and responsibilities of auditors, and the contents of audit reports in the co-operative law, regulations and circulars, as well as in the laws regulating the profession of certified public accountants.

It is the prerogative of government to decide whether to use its own officers to carry out the audit, or to delegate to appropriate agencies, restricting itself to supervision. Such delegation is usually made by the competent minister or head of department. In order to enable the audit institution to establish the required machinery and to plan its work over an extended period of time, it is essential that such delegation of audit powers (audit licence) is given in written form and for an indefinite or renewable period of time, and that the conditions of cancellation of the audit licence are clearly stated in that order.

### b) Special Problems in Case of State-Sponsored Co-operatives

Where the development of co-operative societies is sponsored by government and special privileges are granted to organisations using the legal pattern of registered co-operative society, the lawmakers usually empower the officers of the government department in charge of co-operative development to exercise control over the proper use of such privileges. They are empowered to see that the management of such state-sponsored co-operatives includes the activities for which the privileges were granted - 'development orientated efficiency' and that government money is spent in line with government policy. The far-

reaching powers of government officers to supervise and control state-sponsored co-operatives (management decisions made subject to the approval of co-operative officers, power of direct intervention into the internal affairs of registered co-operative societies) have raised doubts whether the same government department that is empowered to control the management performance of co-operative societies is also able to act as a neutral disinterested auditor.

The conflict of interest that may arise where one officer of the co-operative department (the auditor) has to assess and evaluate the performance of another office of the same department (the supervisor of the management of co-operative society) has served as an argument for either establishing different government departments for promotion and supervision of co-operatives on the one hand and for audit of co-operatives on the other (e.g. in Thailand), or for the delegation of the audit functions to co-operative audit federations (e.g. Indonesia) or chartered accountants (e.g. Singapore).

### c) The Role of Co-operative Audit Federations or Unions

Where it is government's policy to delegate the audit to non-governmental auditors, co-operative audit federations or unions can be considered the most suitable institutions to perform it. This was already expressed in the I.L.O. Recommendation No. 127 of 1966 (para 28), where it is stated that "auditing of the accounts of co-operatives affiliated to a federation of co-operatives should be the responsibility of that federation; pending the establishment of such federation or where a federation is unable to provide its services, the competent authority or a qualified independent body should assume the task".

If co-operative audit federations are granted audit licences and are given autonomy to make their own by-laws, particularly with regard to membership, composition of their governing bodies and sources of finance, they constitute a structure that encourages participation and self-reliance that corresponds to the ideals of self-help, and that is suitable to perform co-operative audits with the emphasis on assessment of management performance through member-oriented efficiency.



Well-established co-operative audit federations or unions are in a better position than government officers:

- to protect members against misuse of powers by the management (emphasising development-orientated efficiency at the expense of institutional and/or member-orientated efficiency),
- to assist the lay committees in exercising their functions of policy making and control of management, and
- to enhance the creditworthiness and general reputation of co-operatives as reliable business partners.

Where the government intends to implement a policy of de-officialisation of co-operatives, the transfer of the audit functions to co-operative audit federations or unions would be a decisive step in the right direction.

#### 4. Different Ways of Regulating Co-operative Audit Systems

##### a) The German Co-operative Audit System

In Germany the co-operative audit system is the result of historical development after a long period of trial and error. In a nutshell the main feature of this system are as follows. The audit function for all types of audit is delegated by government to co-operative audit federations which operate under the legal form of private law associations. The licence can be withdrawn if the audit services are no longer required, if they are not carried out effectively or if the federation loses its financial viability.

Co-operative audit federations are formed by co-operative societies and financed through audit fees, annual subscriptions and service charges for common services.

All registered co-operative societies have to be affiliated to one of the fourteen regional, eight specialised or three national audit federations. Audit of the formation process is done by a co-operative audit federation and subsequent admission to membership of that federation is one of the requirements before registration. Withdrawal from the audit federation is a reason for cancellation of the

registration of a co-operative society.

The co-operative audit federation has to make by-laws with minimum contents as prescribed in the co-operative law. The minimum contents include the qualification of co-operative auditors and the way in which such auditors are trained. The co-operative audit federations have a democratic representative structure. Its office bearers are elected representatives of affiliated co-operatives. The audit department is a separate department within the audit federation, headed by a qualified and experienced auditor who has passed the examination of chartered accountant. Auditors report to the federation, and its audit department prepares the final audit report to be sent to the Society. In this system the role of the state is limited to granting and withdrawing the audit licence.

The German co-operative audit system has been developed to meet a felt need of co-operatives but also to avoid inspection and audit of co-operatives by government auditors.

#### b) The British-Indian Pattern of Co-operation

According to the concept underlying the classical British-Indian pattern of co-operation, the audit function is part of the overall responsibility of the co-operative department in charge of co-operative development. Free audit by government auditors was considered as one of the major privileges of registered co-operative societies. The intention to encourage the formation of co-operative apex organisations and to gradually transfer the audit function to them has not been seriously pursued in most of the countries which apply the British-Indian pattern of co-operation. In practice, the co-operative department assumed the additional functions of supervision and control of co-operative management which made co-operative decision-making virtually subject to the approval or direct participation of government officers, who thereby became part of co-operative management and lost their neutral position as auditors.

With the growing numbers of co-operatives and a limited number of co-operative department staff it became more and more difficult to offer regular free

audit to all registered co-operative societies. The quality of audit deteriorated, the accounts of some co-operatives were not audited at all over long periods. Low standards of audit of the foundation process led to proliferation of non-viable societies which made coping with audit problems even more difficult.

#### c) Adjusted Systems of Co-operative Audit

In order to solve these problems the A.R.R.O. and several research workers proposed to split the classical co-operative department into four separate bodies to carry out its functions, i.e.

- a co-operative department to administer the law, register new societies (including audit of the formation process), carry out special audit and cancel registration. These tasks were considered as permanent government functions;
- a co-operative development service for all promotional and advisory work, to be transferred gradually to co-operative organisations;
- a co-operative audit service headed by a qualified chartered accountant to carry out the statutory annual audit, as a permanent government task financed by audit fees fixed in consultation with co-operative apex organisations; and
- a co-operative tribunal to hear appeals against orders and awards made by the Registrar of Co-operative Societies.

To some extent Thailand has adopted a system of splitting the promotional functions and the audit functions, and making them the responsibility of separate government agencies.

#### d) Audit Federations on a Voluntary Basis

At present experiments are under way in Indonesia and in the Philippines to develop a new system of co-operative audit which is based on a division of work between the government department in charge of promoting co-operative development and co-operative audit federations.

Some of the features of this system are:

- annual audit of all registered co-operative societies as a statutory requirement;
- formation of co-operative audit federations with temporary external assistance granted an audit licence by government;
- voluntary affiliation of co-operatives to such audit federations;
- free choice of auditors, i.e. discretion of co-operatives to choose between audit by the government service or by a co-operative federation.

#### 5. Problem Areas for Further Discussion

- a) Which is the appropriate legal pattern for institutions in charge of co-operative audit (secondary co-operative society, private law association, parastatal organisation or government department) ?
- b) Pros and cons of voluntary affiliation to co-operative audit federations and free choice of auditors versus compulsory affiliation to co-operative audit federations with a monopoly for co-operative audit.
- c) How to finance a co-operative audit system? Government subsidy to finance free audit, annual contributions to an audit and supervision fund, audit fees to cover costs of audit, income from other service charges?
- d) How to maintain and build up a corps of qualified and motivated co-operative auditors? Training programmes, entry examinations, service conditions.
- e) What is government's attitude towards building up autonomous, self-reliant co-operative audit federations?
- f) To what extent can the audit functions be combined with other functions in the field of promotion of co-operative development i.e. advisory services, consultancy, promotion of joint business ventures?
- g) Is it preferable to build up new audit federations or to transfer the audit function to existing co-operative apex organisations?

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For more details on this subject see:

*Report on the ASEAN Symposium on Co-operative Auditing*, November 15-20, 1982, Manila; sponsored jointly by the Friedrich-Ebert-Stiftung (FES) and the National Association of Training Centers for Co-operatives (NATCCO), Manila, 1983.



COOPERATIVE DIRECTORS' AND THE MANAGEMENT OF  
AMERICAN AGRICULTURAL COOPERATIVES

by

Terence J. Centner\*

The recent economic recession has had a marked effect on American co-operatives. In 1981 the net margins of 100 of the largest American agricultural co-operatives decreased 44 per cent while net losses were nearly double the previous year's amount. These economic conditions resulted in 44 per cent decrease in the refunds of these co-operatives paid in cash.<sup>1</sup> In addition, some co-operative members have also experienced major economic difficulties

The poor performance of some American co-operatives, as compared to corporate competitors, has suggested that there may be problems with co-operative management. The business and affairs of American co-operatives are managed by directors, acting together through a board of directors, who may appoint officers and other management personnel to assist with the management of the co-operative's business activities. Although this management function is analogous to the management function of a corporation, there are several notable distinctions that may operate to restrict the management choices available to co-operatives. Such distinctions include the diverse provisions of the special co-operative enabling laws, director membership requirements and officer membership requirements.

The increased size of many American co-operatives has weakened the commitment and co-operative spirit of many co-operative members. The resulting passive membership role has been accompanied by a decrease in membership loyalty to the co-operative so that co-operative directors can no longer assume that members will be supportive of their business decisions or questionable business arrangements.

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Economic conditions, the increased assertiveness of shareholders, and the willingness of Americans to resort to legal remedies in settling disputes suggest that co-operative directors need to be more cognizant of their duties in order to avoid legal challenges and problems associated with inadequate or unprofessional director performance.

This paper delineates the duties of directors, their responsibilities to conform with the law, and identifies some significant management limitations that affect American co-operatives. Although there may not be a definitive management solution that applies to all American co-operatives, an increased effort to educate co-operative directors and the identification of problem areas can help minimise legal challenges, provide ideas for better management and possibly improve the economic performance of these self-help organisations.

### Duties of Directors

Co-operative directors in general have the same duties as corporation directors, the duties of obedience, loyalty and care. Directors may incur liability for the breach of a duty of obedience by violating a law. Director liability for breaching a duty of loyalty or care may arise if a director fails to meet the standard of conduct imposed by state law. Although each state has its own standard of conduct, an objective 'prudent-man' standard has evolved in several states for corporate directors which undoubtedly applies to co-operative directors. This standard requires directors to fulfil their obligations in good faith with that degree of diligence and care which ordinarily prudent men would exercise under similar circumstances in like positions.

The duty of obedience requires co-operative directors to comply with the provisions of applicable local, state and federal laws. This duty obviously means refraining from illegal acts. This means not only that directors must personally refrain from any conduct that is violative of any law, but also that they must direct their co-operative in such a manner



so that the co-operative does not engage in any illegality. The failure of directors to direct the co-operative to comply with applicable legal requirements may constitute culpable mismanagement or a violation of the directors' duty of care and could lead to individual liability of a director.

American co-operatives have been formed pursuant to state incorporating laws. The enabling laws prescribe powers available to co-operatives and provide that each co-operative shall be governed by its articles of incorporation and by-laws. Directors must direct their co-operative to obey the articles of incorporation, by-laws and the state law of its incorporation.

Various laws enacted pursuant to the states' reserved powers and the federal government's constitutional powers regulate the permissible activities of co-operatives, and the failure to conform to these laws could constitute a breach of the directors' duty of obedience. Co-operatives are subject to local laws concerning the health, safety, welfare, and morals of the community, such as zoning regulations and building codes. They must comply with state laws such as laws dealing with state antitrust rules, state licensing, state taxes, and state transportation permits. Federal laws also restrict the operations of co-operatives and govern their activities. Violations of federal legislation, such as the antitrust laws, Interstate Commerce Act, federal Securities Acts, Internal Revenue Code (tax law), and Fair Labour Standards Act, have constituted the basis of numerous law suits against co-operatives and their directors. Allegations of common law violations of fraud, conversion, tort, nuisance and corporate waste have also been made against co-operatives and their directors.

The duty of obedience also prohibits directors from engaging in *ultra vires* acts - acts that are not within the powers conferred to directors by any law. Co-operative directors may commit an *ultra vires* act in making a determination regarding the return of members' patronage refunds or per-unit retains. Several co-operatives and their directors have been sued by co-operative members for a breach of the duty of obedience because directors have engaged in the *ultra vires* act of not paying patronage refunds as required

by the co-operative's by-laws or by state law.

The duty of loyalty requires directors to discharge the duties of their respective positions in good faith. Good faith involves an equity concept of fairness. Directors must act fairly in decisions affecting competing interests of the co-operative, its stockholders or patrons, and minority holders of interest. The discretionary redemption of patronage refunds has resulted in litigation concerning this fairness issue.

Good faith also requires directors to disclose any conflict of interest between themselves and their co-operative. A conflict of interest arises when a director has a material personal interest in a contract or transaction that affects the co-operative or to which the co-operative is a party. Conflicts of interest for co-operative directors may arise when they direct the payment of director compensation, approve purchasing and marketing contracts between directors and their co-operative, order the payment of patronage refunds to themselves, or accept nonconforming produce from themselves or selected directors. Various provisions of state law may negate some of these conflicts of interest, such as a provision allowing director to pay themselves for their services as directors.

Finally, a director's duty of loyalty precludes the director from personally taking advantage of opportunities that would also be of value to the co-operative unless the co-operative does not choose to pursue the particular opportunity. This is known as the corporate opportunity doctrine and applies only to business opportunities that a director learns about by reason of the director's position with the co-operative.

The duty of care requires directors to attend to business and allows directors to delegate management activities and rely on officers and employees. Under the 'prudent-man' standard of conduct, a director's duty of care is subjective. It is dependent upon the background, qualifications, knowledge and expertise of the individual as well as the particular circumstances and responsibilities of the director's position. Under this standard a

director's duty to attend to business may be breached by inaction, neglect of business or failure to perform if an ordinarily prudent director under similar circumstances and in a like position would have taken action.

Modern business practices often mean that a director's management function is of an advisory nature since the actual management of the co-operative is performed by the chief executive officers and managers. A board of directors may also delegate certain matters to selected committees of directors in order to facilitate or expedite business decisions. A director's duty of care allows a director to rely on information, reports, statements or financial data prepared or presented by other directors, officers or employees of the co-operative if the director has made a good faith inquiry of the accuracy or truthfulness of the information. However, state law may specifically impose certain responsibilities upon the board of directors that cannot be delegated to others.

Some form of the Business Judgement Rule may apply to co-operative directors under the laws of the state in which the co-operative is incorporated. The Business Judgement Rule is a defence for directors from personal liability where challenged conduct satisfies the director's duty of care. The Rule thereby shields directors from liability in much the same manner as American tort law protects professionals such as lawyers and doctors from malpractice. This includes shielding co-operative directors from liability for unwise or unprofitable business decisions where the directors' conduct satisfied their duty of care.

### Management Limitations

Perhaps the greatest limitation affecting the management of American co-operatives is the diversity of the separate state laws which provide for the formation of co-operatives. The various state legal provisions fail to form a meaningful body of law that can be transposed from jurisdiction to jurisdiction. Most state co-operative laws were originally adopted in the 1920's or earlier. Although all of these laws have subsequently been revised or amended in response to various issues or needs as presented to the state

legislatures, many of the laws have failed to keep pace with the changes of our society. In addition, the absence of a model commission or an organised group of co-operative scholars to develop or co-ordinate model legislation has resulted in antiquated laws that in many instances are not responsive to current conditions.

The co-operative laws are in marked contrast to the statutory provisions governing corporations and partnerships. The state corporation and partnership laws show consistence and a well-defined modern set of legislative guidelines governing these forms of business. The corporation laws govern the rights, powers and activities of business and non-profit corporations. For the most part, these laws were modelled after the Model Business Corporation Code which was laboriously developed by the Committee on Business Corporations of the Section of Corporations, Banking and Business Law of the American Bar Association in 1950. Nearly all of the corporation laws have subsequently incorporated new and amended provisions in response to technological changes, business developments, additional governmental regulations and legal reforms.

The partnership laws of the individual states govern the formation and activities of general and limited partnerships. Legal experts serving on the Committee on Continuing Professional Education of the American Law Institute and the American Bar Association have developed and recommended new statutory provisions for partnerships that are responsive to current economic and social conditions. Reports by this national group of legal experts have assisted state legislatures in the amendment of their partnership laws in response to similar conditions that led to the changes in the laws governing corporations.

A second limitation on the management of many American co-operatives is the director membership requirement which precludes the co-operative from securing the best qualified persons to manage its operations, The requirement that a majority or all directors must be members is a basic part of the co-operative concept that these self-help organisations should be controlled by the members. However, the director

membership requirement mandated by state law or by the articles of incorporation of the particular co-operative may overly restrict co-operative management and detract from the performance of these organisations.

Directors manage the co-operative but generally, except for small co-operatives, avoid excessive participation in day-to-day management decisions. These decisions are most often handled by non-director management selected by the directors. However, regardless of the authority delegated to non-director management, the business direction and control exercised by the board of directors constitutes the most important determinant of the economic success of the business enterprise. Thereby the competence, experience, expertise and other qualifications of the directors are critical to the well-being of the co-operative.

There is no indication that the co-operative members who are elected directors of American co-operatives are not, for the most part, good farm businessmen. However, the success of a farmer in making decisions regarding his farming operations is not necessarily relevant to the experience and expertise needed by a co-operative director for making decisions regarding the co-operative's business activities. A farmer's business of producing food and fibre is quite different from the supply, marketing and service activities of most agricultural co-operatives. These circumstances suggest that a board of directors comprised completely of farmer members may lack expertise in co-operative management.

The marked growth in size of many American co-operatives together with the increased complexity of business and the regulations governing business activities support an argument that a board of directors comprised completely of member directors, may be disadvantageous for the co-operative. The director membership requirement mandated for some co-operatives is not related to a person's competency or expertise but rather the idealistic belief that a co-operative should be controlled by its members. The inability of co-operative members to select the most qualified individuals as directors reduces the

diversity of the board members which presumably diminishes the board's collective decision-making and management abilities. The director membership requirement may thereby detract from the quality of the co-operative's management and this may be a contributing factor to the poor economic performance of American co-operatives.

The size variations of co-operatives and differences in objectives make it difficult to reach a consensus on an ideal membership for a board of directors. However, several general propositions may be established. Firstly, although consideration should be given to the co-operative concept of membership control, it does not follow that the entire board of directors must be comprised of members. A provision in a co-operative's articles of incorporation or in the state enabling law could limit non-member directors to a minority percentage of the board of directors. Secondly, large co-operatives undoubtedly would benefit from the presence of non-member directors who have some type of operational or management training or experience. Thirdly, many small co-operatives could benefit from the presence of non-member directors who could furnish know-how and expertise which the co-operative cannot afford to obtain through the employment of consultants.

Several American state laws already provide that co-operatives may have a limited number of non-member directors who are often referred to as public directors. However, nearly all of these laws exclude the membership of the co-operative from electing non-member public directors. Rather a public official or the other directors elect the public directors. These state laws thereby foster a diversified board of directors but preclude the membership from participating in the election process of the non-member directors.

The laws of one-half of the states requires some of the the co-operative's officers to be members. Such a restriction is similar to the director membership requirement and precludes boards of directors from selecting the most qualified individuals to serve their co-operative as officers. This could especially be disadvantageous for large co-operatives

with business demands which necessitate full-time officers, as the officers would not have the time to manage their farming operation.

It is also unclear whether the co-operative concept requires member officers. Officers are generally selected by the directors and report to the directors. Since the directors manage the business and affairs of the co-operative, it would appear that an officer membership limitation does not serve any real purpose. Therefore, it is submitted that the state legal prescription of member officers unnecessarily restricts the options available to co-operatives. If a co-operative desires an officer membership restriction, it can elect to incorporate this requirement in its articles of incorporation.

### Conclusion

American co-operatives are managed by directors who are governed by a disparate body of law. The legal provisions include many provisions from the laws governing corporate directors that establish a relatively demanding standard of director conduct. Co-operative directors need to learn their directorship duties in order to avoid breaches of conduct which might result in personal liability. Directors must direct the co-operative so that it complies with all applicable laws. Under the duty of loyalty, directors must discharge their duties in good faith in a fair manner. The duty of care requires directors to exercise that diligence, care and skill which an ordinarily prudent man would exercise under similar circumstances in a like position.

Co-operative members and leaders should review the management constraints related to the co-operative concept. Outdated vestiges of the legal provisions governing co-operative management need to be reconciled with modern management practices. The amendment or repeal of selected legal provisions may not seriously detract from the concept of co-operation yet may facilitate more efficient and effective co-operative management.

Finally the economic and social conditions in the U.S. suggest that American co-operatives and their leaders would be well-advised to strive for the revision and clarification of the state co-operative laws. The optimum solution would be the appointment of a model commission by a philanthropic foundation or a national organisation of legal experts charged with the responsibility of developing a new co-operative enabling law. In this manner, co-operatives could emulate the model legal provisions developed for corporations and partnerships. A resulting model co-operative law would then be recommended to the states for adoption and would foster uniform laws governing co-operatives among the states. It is hoped that the model co-operative law would contain provisions allowing for flexibility in the management of co-operatives and would contribute to improving the economic performance of American co-operatives.



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CO-OPERATIVES IN LATIN AMERICA  
SOME NOTES ON THEIR PRESENT SITUATION

by

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In the middle of the 1960s some of the Latin American countries seemed to be in the situation described by Rostow as 'take-off'. Industries had been established, political and general education, infrastructure and health services had been improved, motivation for achievement was high, financial resources, though not abundant, were more or less sufficient to make self-sustaining further development possible. Aspirations grew and were disseminated widely by 'popular' or 'developmental' oriented governments. Then, as these extreme aspirations could not be fulfilled, excuses were easily found (for example, bad trade terms, dependency of the periphery (Latin America) on the centre (industrialised countries), the rich within the countries etc.) Smooth reform processes (for example agrarian reforms) turned into drastic 'revolutions'; revolutionary movements were formed as in Chile and Bolivia which, together with increasing guerilla-movements sponsored and oriented by the Cubans, provoked large withdrawals of capital by the haves and drew the have nots even closer together. Democracy disappeared in Brasil, Peru, Chile, Argentina, Uruguay, and dictatorships, right or left wing ones, made the situations even worse. Democracy was re-established in Ecuador, Peru, Brasil, Argentina and serious efforts to achieve democracy were made by groups in Uruguay, Chile, Panama and El Salvador. The political hot-cold treatments affected the economy as well and - together with other factors - hindered any continuity of growth in the welfare of the population.

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In such a changing environment, co-operatives had to search for their way and it must be obvious that any attempt to describe the co-operative situation in the whole region must fail, as each country is different. Nevertheless, there are some common points which make it attractive to deal with Latin American problems, one of which is the development of co-operatives. But one should bear in mind when reading the following that, due to space limitations some points are overgeneralised and there are many exceptions to the rules.

Latin American co-operative movements have only been a shadowy focus of European scientific research - and they continue to be so in comparison with Africa. This thesis can be confirmed by analysing the agendas of international co-operative meetings, activities and publications. Even the International Co-operative Alliance (I.C.A.) did not look as intensively for contacts in Latin America as in Africa and Asia. Some isolated examples such as an educational assistance project, the occasional invitation, individual affiliations of a few Latin American co-operatives, attempts of the Swedish Consumer Co-operatives to collaborate with Venezuelan organisations, show how marginal the interest or possibility of collaboration has been.

This is partly due to historical facts like links of the Europeans to their former colonies, language difficulties, the supposed influence of United States' institutions. And an important influence might have been the the attitude of the Latin Americans themselves, i.e. a certain - not so splendid - isolation, interpreted as a search for their special integration in the 60s. This effort found its expression in the creation of the Organisation of Co-operatives of America, (O.C.A.)<sup>1</sup> a 'regional I.C.A.', which considered itself an important organisation. However it was financed by funds from North America and never succeeded in organising a real integration of Latin American countries.

The following text gives a general view of the actual situation of co-operatives in Latin America which it is hoped may stimulate the publication of more detailed articles in the future, and perhaps encourage European institutions to collaborate more intensively with Latin American co-operatives.

## General Characteristics

Trying to understand the actual situation of co-operatives in Latin America, it might be interesting to recall the results of an analysis about the co-operative situation, published in 1973 (see Table 1).<sup>2</sup>

### Young Movement

The great majority of Latin American co-operatives was created in the 60s. This means that the advantage of young organisations, especially the enthusiasm and the aspirations of their members, exceeded by far the real possibilities. The disappointment was therefore a built-in-factor, even though the creators were not willing to face the normal problems of co-operative organisations, not looking sufficiently for stabilising elements.

### Top-Down Creation

The great majority of co-operatives were founded by governmental institutions, churches or other organisations, even by employers trying to calm the social anxieties of their workers by creating consumer shops or credit branches in the form of co-operatives. In most cases, the spirit of self-help and self-reliance had to be promoted and was not the natural basis of co-operation. The more important motivation to join a co-operative was the expectation of benefits such as preferential legal regulations, technical and organisational assistance, education and other services without costs, and simple economic advantages such as cheap credit, export and import facilities, tax reduction, access to agricultural land, etc.

### Ideological Approach

The benefits offered by the promotional agencies were interpreted and justified to both society and co-operatives with ideological reasons. But the co-operative doctrine, important in the creation period of a group, overwhelmed the organisational problems and advantages. Not the effort and benefit of the member, but the positive effect on society took precedence. Thus, co-operatives felt themselves to be a small better world which rejects exploitation and

TABLE 1 - GENERAL REVIEW OF LATIN AMERICAN COOPERATION

Country	Year	Pop. 000s	Primary cooperatives			Secondary cooperatives			Cooperatives in the tertiary sector or special institutions for Educat'n Financ'g Audit'g Insur.					
			Number 000s	Penetration (%)	Size	No. Member coops.	Rate of integration (%)	Apex organ'sh	Educate'n	Financ'g	Audit'g	Insur.		
Argentina	1972	24	4,400	4,745	54.4	1,078	33	3,301	75.0	CIA	ESEC	Coop banks	Banco Nacion	AACMS FACS
Bolivia	1973	5	1,459	124	11.9	85	6	518	35.5	-	Coop AS	-	-	-
Chile	1972	10	3,452	834	22.2	242	23	1,131	26.7	CONFECOOP	ICE COOP	IFI COOP	AUDI COOP	UCO SEG
Costa Rica	1972	1	270	77	10.5	218	6	119	44.0	UNA COOP	INFO COOP	-	-	-
Ecuador	1972	7	910	128	5.4	141	8	-	-	-	ICE	Coop banks	-	-
Colombia	1972	21	1,480	1,113	14.3	752	11	452	30.6	AS COOP	INDE SCO	FINANCIA COOP	-	-
Mexico	1973	54	2,886	344	1.7	119	66	-	-	CNC	IMEC	-	-	-
Panama	1972	2	282	40	7.3	142	7	93	35.0	-	-	-	-	-
Peru	1973	15	2,010	926	17.5	451	27	417	20.7	Confederacion	-	BAN COOP	-	COSE INCA SEG. COOP
Uruguay	1972	3	918	261	23.4	284	3	55	6.0	-	IDEAL COOP	-	-	-
Venezuela	1973	12	292	74	1.9	253	6	-	-	CNC	CCU Merida	ICC	-	-

Source: D.W. Benecke, "Recent Developments in Latin American Co-operative Movement: an Overview." *Journal of Rural Cooperation* Vol. IV/2 (1976) p.11

looks for more justice and brotherhood.<sup>3</sup> This description is somewhat exaggerated, and was only a 'verbal feeling' of the leaders; in the meanwhile the ordinary member tried to get the maximum benefit out of his organisation making the minimum possible contribution.<sup>4</sup> Only a small number of leaders made a real contribution beyond the verbal one to the creation of this better world, opening the co-operatives even to the poor, while mostly 'closed co-operatives' prevailed. Some leaders simply dreamt about the better co-operative world, some intentionally used these organisations as instruments for a personal career, behaving like the traditional *caudillo*, the typical egoistic and egocentric Latin American leader, who always has social responsibility on his lips and the personal benefit in his pocket. There is no doubt about the existence of some exceptional leaders, but they really were exceptions. Control in co-operatives was far less important than confidence with the usual consequence of failure. Only when certain educational institutions started training programmes for the management and the members, did this ideological phraseology decrease in importance.<sup>5</sup>

### Quality Gap

The quantitative success of co-operatives did not correspond to their qualitative development. Co-operatives in many countries felt that the socially relevant figures of affiliation - which in some cases went up to 50% of the active population - were more important than those which indicated economic strength, such as participation in development in national production, and in the different markets. Consequently, operational deficiency, organisational weaknesses, financial and marketing problems and lack of member discipline were not sufficiently attacked.

### Formal Integration

As can be found in many areas of Latin American life, the formal regulations in the co-operative movements were quite perfect. Sectoral federations and national confederations were created, but normally more for representative reasons than for operational ones. By contrast, other specialised institutions such as co-operative banks and financial institutions, training

centres and assistance institutes started with promising efforts, but soon concentrated on the larger co-operatives. Thus the expression of a 'co-operative movement' has been and still is somewhat euphemistic. Nevertheless, structural conditions for a consolidated co-operative development had been created and it would have been relatively easy to use the integrational framework positively, working together with leaders who dedicated themselves more to their job than to their personal advancement.

### Lack of Political Influence

The co-operative principle of political neutrality was interpreted as abstinence in the countries' policy-making process (if one disregards the intents of some *caudillos*, who acted for their personal benefit, rather than the co-operative movement). And why should they have created a political effective pressure group, while it was the government who 'favoured' the co-operatives? Predicted changes in the political structures found the co-operatives unprepared. They were affected by the political life of the Latin American countries far more than they influenced it.

One can say, then, the formal development of co-operatives was highly satisfactory up to the beginning 70s, but the practical achievements and the results compared with the potential benefits<sup>6</sup> were unimportant. Co-operatives did not improve the situation of the mass of the population as expected. Nevertheless the situation of the people who joined co-operatives would have been even worse without the activities of many co-operative organisations.

### The Present Situation

Latin America's political, economic and social life has not become easier during the 70s. Even if some countries like Ecuador, Mexico and even Chile achieved some improvement for a short time 1979-1981, the situation today for the major part of the population in Latin America is worse than in the end of the 60s, except perhaps in Panama and Paraguay.<sup>7</sup> There are some factors which escape the co-operatives' direct influence, such as population growth, military coups, corruption in the public sector. Other problems like insufficient production, very one-sided income



distribution, inflation, unemployment, where co-operatives could have had an impact, do not indicate a positive contribution from co-operatives either. It is hard to say this, but it is now clearer than ten years ago: co-operative development depends more on the political environment and economic order than vice versa. This has been a deep disappointment for social utopians, turning some of them into severe critics of co-operatives.<sup>8</sup> This attitude seems to me as wrong as the exaggerated enthusiastic ones in the beginning of the last decade.

### Latin American Integration of Co-operatives

In terms of co-operative integration, little has changed.

- The Latin American Credit Union Confederation, COLAC,<sup>9</sup> continues to be the strongest organisation. But it still limits its activities to one sector and its room for activities depends to a high degree on promotional funds from international agencies.
- The Interamerican Society for the Development of Co-operative Financing, SIFECOOP<sup>9</sup> (1982: 14 members in eight countries)<sup>10</sup> did not become an effective power of co-operative banking. It still channels funds from outside, facilitating information and exchange of experts - certainly a useful function - but it has not raised sufficient of its own funds to fulfil its aims.
- The summit institution, the Organisation of Co-operatives of America, (O.C.A.)<sup>9</sup> is even weaker than it was in the beginning of the 70s. When the North American institutions stopped funding O.C.A. and the Peruvian Government withdrew their support of the O.C.A. office's activities the organisation degenerated into a mere 'club of personalities'.
- The attempt of the Latin American Confederation of Co-operatives and Workers, COLACOT, did not succeed in replacing the O.C.A. The combination of the trade union movement and the co-operative movement, which the founders of COLACOT had looked for, did not achieve the intended goal, because of many factors such as operational deficiency,

personal ambitions, lack of financial resources; but basically because there is no homogenous movement in Latin America, neither in the trade union sector, (which is divided into the three political sections, Social Democratic, Christian Democratic, and Marxist leanings) nor in the co-operative field.

- A new and theoretically promising initiative was the creation of a Latin American Association of Co-operative Training Centres, ALCECOOP,<sup>11</sup> sponsored in the beginning by the Spanish Co-operative Training Centre in Zaragoza and now a mere pool of occasional information.

Comparing the actual situation with that of the 60s, the weakened position of Latin American federal organisations reflects the generally greater difficulties of the national co-operatives in the different countries.

### National Situations

The situation inside the countries themselves is quite different, not only at the national level, but even in the particular co-operative sectors. There is no new quantitative and comparative study, but some working groups continue analysing the co-operative situation in these countries. A Commission of Co-operative Centres in the Andean region, including some other countries like Argentina, Paraguay, Honduras, meet regularly to exchange experiences about the development of the co-operatives in their countries.<sup>12</sup> Certain university research centres, specialising in co-operatives, as in Ecuador, Colombia, Brasil, Bolivia, Peru and Chile, study the situation continuously. Both groups collaborate with German institutions. The Swedish Co-operative Centre is starting a comparative empirical study and an Italian co-operative consulting organisation is developing a co-operative promotion model for the Third World which eventually could include Latin American countries.

Thus, a considerable amount of relatively reliable information is available, but this is not the place to analyse them in detail. As a 'neutral observer' one can pass over special explanations and national sensibilities and distinguish three types of co-operative development

in Latin America, a positive one, a negative change and a nothing-new-situation.

Generalising considerably, one can count the cases of Colombia, Ecuador,<sup>13</sup> Paraguay, Panama and Honduras<sup>14</sup> as positive examples. Also positive can be considered the agrarian reform co-operatives in El Salvador and Nicaragua, where the collective form of co-operation gives reason to expect returns when there is more democracy. Ups and downs, but *per saldo*, more or less the same situation as ten years ago can be found in Mexico and Venezuela - both with a deplorably weak co-operative movement due to apparently abundant individual opportunities or contra-productive state promotion; in Argentina<sup>15</sup> and Uruguay - both with a long tradition of co-operative activities and (therefore?) an admirable resistance to adverse political and economic winds. In Costa Rica, Brasil, Guyana and Bolivia, if one takes the general situation in these countries as the criterion, one might judge the co-operative situation here as even worse. A clear case of decline can be noticed in Chile, where up to 1970 there was a high rate of co-operative growth; in Peru,<sup>16</sup> where the Velasco Government sponsored the agricultural co-operatives into a state of paralysis; and in Guatemala where right wing groups persecuted co-operative leaders - even physically.

Such a generalisation must be considered as unsatisfactory, but it indicates how unhomogeneous the co-operative situation in Latin America is. The following two cases illustrate my point.

### Two Contrasting Cases: Chile<sup>17</sup> and Colombia<sup>18</sup>

These two cases, one representing a great failure and the other one showing the most considerable success in the last decade, illustrates the wide range of co-operative situations in Latin America. One could have taken Argentina as an example of the most highly developed co-operative movement, but Colombia presents a more dynamic and sustained development.

#### 1. Chile

In the government of Frei (1964-1970), the number of co-operatives (members) increased from 830 to 2,075 (341,000 to 648,000). This was achieved thanks to a

very intensive promotion campaign and concrete assistance programmes. At this time not only local co-operatives were founded, but the integrational structure (confederation, federations, a training centre (ICECOOP), finance institution (IFICOOP); consultancy (AUDICOOP) and other assistance organisations) was built up or extended.<sup>19</sup> Due to the accelerated agrarian reform process and new workers' co-operatives, another numerical push was given to co-operative development in the time of the Allende government (1970-1973), reaching 3,452 co-operatives with 834,050 members<sup>20</sup> in 1973. At the end of 1982 the number of formally existing co-operatives was 2,772, but only about 1,700 are still active.<sup>21</sup> IFICOOP and the assurance co-operatives disappeared, the most successful and socially enormously advanced co-operative SODIMAC (purchase of construction materials) and UNICOOP (consumer co-operatives) were sold to private economic groups because of competition problems and government interventions.<sup>22</sup>

The qualitative fall of the co-operatives had already started in the 1970-1973 period. But this could be interpreted as the normal reduction in a co-operative movement more numerically developed than operationally. The real shock came in the period of an extremely liberal economic policy (Chicago-School) from 1975 onwards. Economic progress seemed to be achievable easily by individual efforts and many persons did not recognise the tendency to economic concentration and therefore the weakening of the middle class. Between 1976 and 1982 more or less 50% of the co-operatives failed and most of them reduced their operational field.<sup>23</sup>

One could have thought that the liberal economic policy would have given sufficient leeway for co-operative action, as co-operatives were not prohibited. But most of them did not have the necessary managerial and technical skills. Financial resources were not available from the members due to the very high interest rates in the capital market which made investment there far more attractive.

The numerical evidence only reveals the surface of the problem. But a lot of cases can be cited where, thanks to training courses, the co-operatives maintained a modest contribution to their members' welfare.

Table 2  
Co-operatives in Chile

Type of co-operative	1972/73		1976	1982
	Co-operative	members	Co-operatives	Co-operatives
Large farmers	217	40,700	201	127
Small farmers	308	86,400	230	214
Agrarian reform	202	9,900	217	37
Other rural co-operatives	65	4,950	124	119
Consumers	100	411,200	186	140
Credit unions	200	73,200	268	150
Housing	2,000	110,000	1,557	1,456
Electrification	16	12,100	15	15
Fishermen	61	3,500	63	47
Drinking Water	168	12,750	176	175
Workers	30	1,450	81	78
Others	85	67,900	229	214
Total	3,452	834,050	3,347	2,772

Sources: D.W. Benecke, E. Rusch, op. cit., p. 161  
CEDOC/ICECOOP, op. cit., p. 7.

Perhaps training and technical assistance had never been so effectively organised as from 1975 onwards.<sup>24</sup> But the task was too great: it was impossible to avoid the loss of a great part of the assets. But contrary to the Peruvian experience, the co-operative image has not been damaged. Possibly, therefore new efforts at revival might be successful, if the bad economic situation of the country, above all the unemployment (about 30% at present) and the destruction of the middle class continues. Such difficulties could motivate people to join or to build co-operatives in order to satisfy at least their basic needs and to defend themselves against poverty. If those persons are oriented properly, the illusion of the easy-way co-operative can be destroyed definitely, making people pay more attention to the problems and real opportunities.

It is observable that the great majority of co-operative leaders are backing the return of democracy. The present regime will not give them a chance to act as a pressure group. In a future democratic government, however, it can be expected that this experience of decline will make them behave with more solidarity than they have done.

## 2. Colombia

In contrast to Chile, Colombia has had a continuous democratic system during the last decade. The economic situation, compared to the majority of other Latin American countries, is relatively good, even if there are severe problems of urban poverty and unemployment (about 20%). It is clear that the high demographic growth will create even more difficulties in the future, but up to now, a quite sound economic policy aimed at avoiding extreme concentration of wealth, is a reliable framework for the development of the middle class.

Table 3 indicates the development of Colombian co-operatives.<sup>25</sup> A point to note is that, compared to other Latin American countries there is a very dynamically expanding sector of co-operative grammar and high schools. An even more dynamic development is the credit union sector, one of the strongest in Latin America. Both types of co-operative show that the urban population uses co-operation in order to defend itself against increasing costs of living.

Table 3

## Co-operatives in Colombia

Type of Co-operative	Co-operatives			Members (000s)		
	1968	1972	1979	1968	1972	1979
Credit unions	613	570	830	117	417	455
Farmers	66	179	-	46	171	-
Consumers	42	98	-	27	43	-
Housing	123	38	41	91	13	16
Transport	122	153	255	20	18	32
Education	23	91	295	3	12	48
Others	837	351	714	598	439	374
Total	1,826	1,480	2,135	902	1,113	925

Sources: D.W. Benecke et al., op. cit. p. 210, DANCOOP  
*Diagnostico del Cooperativismo Colombiano*, Vol. II,  
 Tab. 1,2.

As they have a reasonably satisfactory co-operative situation in urban areas, the external observer is astonished at the agricultural co-operatives' deficient development. Even if in the coffee producing sector and under the agrarian reform carried out by the governmental institution CECORA, co-operation already plays an important role, the steps towards independent self-reliant agricultural co-operatives have only been taken in a few cases. An attempt to create a national federation of agricultural co-operatives has failed, and except for the excellent promotion work of a regional private institution in the Cauca Valley (CENCOA), no considerable achievements have been made in the agricultural sector.

The future progress of co-operatives in Colombia is assured, if there is no unexpected political change. Training of managers can be given by the Co-operative Centre ESACOOOP, financial resources can be obtained from FINANCIACOOOP, insurance can be contracted with the co-operative *Seguros la Equidad*, integration is assured through the national association ASCOOOP and in the credit union sector by UCONAL. In different universities, especially in the Santo Tomás University, co-operative teaching and research programmes are offered. In addition the government, through the National Administrative Department of Co-operatives, DANCOOP, procures studies and has worked out a National Development Plan of Co-operatives (Bogota 1982).<sup>26</sup>

### Future Perspectives

Latin America is passing through a very difficult decade. Unemployment, demographic growth, foreign debt, inflation, less international commerce, poverty in urban slums, lack of political participation etc., make it very problematic to predict a favourable overall development in the near future. Co-operatives cannot wait for a better environment, they themselves must improve it, opening new domestic markets, increasing agricultural production, influencing their members even in non-economic fields like birth control. Up to now, co-operatives have depended too much on the legal framework, the economic and political order and the educational level. For those who research



into long-term development of co-operatives, it is no surprise that there is a correlation between the co-operative development and democracy, or at least the possibilities of economic participation by the mass of the people. That does not mean that democracy raises co-operatives or that a strong co-operative movement stops dictatorial tendencies. If co-operatives do not seem to be necessary because there are sufficient individual opportunities, as people in Mexico's and Venezuela's bonanza time thought, it is hard to convince people that they have even better chances by co-operating. But if those apparently good individual opportunities are lost, so is the co-operatives' ability to prosper automatically because of certain apathy. In any case, even in a democratic state, co-operatives do not succeed without education and training. Therefore even the most convinced co-operative promoter cannot afford to believe any more that co-operatives or co-operative movements are a better world in which one can forget about the environment. Co-operatives with only voluntary management will not survive in a Latin America that has reached such a concentration of economic power. Only professionally-trained management and well-informed members will have the opportunity to improve their situation through co-operatives. In Latin America, this chance, in spite of all the difficulties, does still exist. Therefore co-operative promotion from outside which meets the spirit of self-help and self-responsibility of the potential members, is more necessary than ever in order to reduce in this continent the increasing economic and social problems which could very soon put even Europe into deep political and economic difficulties.

## NOTES AND REFERENCES

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2. See D.W.Benecke et al: *Las Cooperativas en America Latina*. Zaragoza, Spain, 1976. A summary of this book was published by the author in *Journal of Rural Co-operation*,ol.4/2 (1976). pp.117-128
3. One modern example of this thinking and far from the frequently-seen purely dogmatic approach can be found in W. Sommerhoff: *Desarrollo Integral en Dignidad: Lección de una Experiencia Cooperativa (Integral Development with Dignity: a Lesson from a Co-operative Experience)*. Buenos Aires, 1980. esp. pp.129-201
4. Here one could study in practice the importance of the outsider problem, analysed in general by M. Olson Jr. *The Logic of Collective Action*. Harvard University Press, 1965, and applied to co-operatives by D.W.Benecke in *Co-operation and Development*. Mainz 1982, esp. pp. 55 ff.
5. Costa, R. 'La Educación en el Proceso de Desarrollo' (Education in the Development Process) *Cooperativismo y Desarrollo*, Buenos Aires, 1979. pp.93-113
3. The broad scope of aspirations has been exposed by I.L.O. *Recommendations on the Role of Co-operatives in the Socio-Economic Development of Developing Countries*. . Recommendation 127. Geneva, 1966.
7. This is clearly shown by the Year Books of the Economic Commission for Latin America, United Nations, *Estudio Economico de America Latina*. Santiago de Chile, 1983 (with figures of 1981).

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8. The critics of O. Fals Borda can be quoted as an example in R. Apthorpe et al: *Cooperativismo, su Fracaso en el Tercer Mundo (Cooperatives: Their Failure in the Third World)* Bogota, 1977.
9. Details about the Foundation, membership and aims can be found in D.W.Benecke et al, op.cit.(2).
10. See SIDEFCOOP *Bulletin* No.20., Bogota, 1982.
11. In 1980 a short description of the then 64 member institutes was published: *Fichero de Centros Asociados a ALCECOOP*. Zaragoza, 1980.
12. In May 1983 those institutes came together in Buenos Aires in order to exchange views about *Latin American Cooperatives in the Year 2000*. Their review *Chasqui* (ed. CENCOA, Cali) publishes regularly articles about the co-operative situation in different Latin American countries.
13. See J. Heins. 'Das ecuadorianische Genossenschaftswesen.' *forum International* No.7/83. pp.315-319
14. See R. Reyes S. *Informe Nacional Honduras*. Institute of Cooperative Promotion, IFC, Tegucigalpa, 1983; D.W.Benecke. *Factibilidad de una Carrera Universitaria en Materias de Cooperativismo (Feasibility of a University Teaching Programme on Cooperatives)*. Santiago de Chile, 1973, esp. pp.6-23
15. Acuna, P.M. et al. *Reflexion sobre el Cooperativismo Latinoamericano en el Año 2000*. Buenos Aires, 1983.
16. See C. Torres y Torres Lara. *Cooperativismo, el Modelo Alternativo*. Lima, 1983, esp. chapt.2- other recent publications of the Universidad de Lima, and the chapter 'Peru' in D.W.Benecke et al, op.cit.(2)
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19. See J. Polanco V., *El Efecto del Pensamiento y la Obra de Gobierno de Don Eduardo Frei M. en el Desarrollo del Movimiento Cooperativo Chileno*. Santiago de Chile, 1982.
20. Benecke, D.W., Rusch, E. in: D.W. Benecke et al. op. cit. Chapter 'Chile: Servicio de Cooperación Técnica, El Movimiento Cooperativo Chileno'.
21. CEDEC-ICECOOP, op cit., p.6
22. The book of W. Sommerhoff, op cit. about the Chilean case, is a fascinating cooperative experience, lived and suffered by a great cooperative pioneer.
23. Not only co-operatives failed: other enterprises were affected by the concentration as well. CEDEC-ICECOOP, op cit. p.3, show the constantly increasing number of bankruptcies.
24. For that purpose FATEC, a fund for co-operatives education and promotion, was established. In addition, international development agencies sponsored programmes and here one should mention the praiseworthy activities of the Chilean Institute of Cooperative Training, ICECOOP.
25. W. Frank, in: D.W. Benecke et al, op cit. Chapter 'Colombia'; and other publications of the Cooperative Research Institute of the University of Santo Tomás, Bogotá, explain in detail the development lines in the different co-operative sectors. A new description can be found in DANCOOP-PNUD-OIT *Diagnostico del Cooperativismo Colombiano*. Bogotá, 1981.
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## CO-OPERATION AMONG WOMEN IN RURAL DEVELOPMENT PROJECTS

by

Janice Hughes\*

Throughout sub-Saharan West Africa, rural women spend endless hours gathering fuel, carrying water and preparing food for the family. They are locked into a cycle of survival that inhibits change. They must also face an increasingly alien environment that threatens to disrupt their fragile pattern of behaviour. Most development projects in the region attempt to tackle specific questions such as improving the fish catch from the River Niger or introducing solar cookers in Upper Volta. Very few projects address the issue of the participants' control over their environment. It is partly because it is a political issue. It may offend the government. It is an issue about people and people are difficult to manage. Aid agencies like to appear impartial. Their presence is transient. They prefer to transfer technology and equipment rather than being too involved with people.

This study examines how a group of women in Mali broke out of this cycle. By joining together to form their own community and co-operative projects they have succeeded in extending control over their environment.

There is a trend at present for advocating 'income-generating' projects for women as a panacea for all problems. Of course it is not. Cash without control is meaningless. Income-generating projects can force women into a position of exploitation and dependency without any real development taking place. The Malian experience described below will be of interest to rural women throughout the world, particularly as their projects were designed and implemented by the women themselves. They were neither donor-inspired nor the creation of a national government. Development planners are often quick to point to the failure in co-operatives. They are less likely to

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offer success stories. Here is an example of how co-operation can evolve within a group for their own mutual benefit. It illustrates how co-operation can bring control and real development to rural and semi-urban communities.

The study is set out in four parts. The first provides the historical background. The second examines the economic and social position of women in Markala and the impact of the cloth-dyeing co-operative on their lives. The third part looks at the rug making co-operatives, and the fourth presents some conclusions and policy recommendations.

### Historical Background

Women, say the Bambara, are the foundation upon which the universe is built (*Dinye sigira musow kan*)<sup>1</sup>. This proverb reflects the belief that, as producers, processors, farmers and traders women are essential to family prosperity. However, during the colonial period many of the families in Mali (formerly French Soudan) were separated and transported to provide labour for the cotton plantations, for the irrigation schemes and for the building of roads and railways. Many women lost their family identity. Moreover the new colonial economy brought in imported products such as European foods and textiles displacing the women's traditional income-earning activities. The gap between the old and the new economy widened. Many women who were unable to find work were forced into a position of poverty and dependency. It was from this position that the women of Markala and Segou sought new ways to fulfil their family obligations.

### Markala Co-operative

Markala is a small town of 8,000 people on the Niger River. It is a few kilometres from Segou, the ancient capital of the Kingdom of the Bambara (1600 - 1854) which is located 300 kms from Bamako. The Markala Co-operative was founded in 1975 by a group of twenty women in response to a suggestion by Mrs. Mariam N'diaye Thiam. Without her initiative the movement would not have started. She is a woman of great talent and integrity - a natural leader. As an employee of the Ministry of Rural

Development and interested in women's affairs she was able to provide practical advice on how to learn marketable skills and how to earn a regular income.

### Women's traditional duties.

The first activity of the Co-operative was cloth-dyeing. The second was soap making. Women were traditionally expected to provide food and clothes from their subsistence income. Even today, it is a grave offence to a Bambara women of the region to hear her husband say in public that he buys her clothes<sup>2</sup>. Seventy five per cent of the Co-operative members cited cloth production as their mothers' work. At night they spun cotton and when they had enough thread they hired male weavers to weave strips of cloth for the family. The remainder they sold, using the money to buy salt and other household goods. Although the traditional spinning and weaving has been partially displaced by the factory cloth, nine of the Co-operative members had learned indigo or mud-dyeing techniques from their mothers.

Apart from providing clothes the Co-operative women also wanted to earn cash. The people of Markala claim that the economy has never recovered from the extended drought of 1968-73. Before the drought food insecurity was unknown. The Niger river was overflowing with fish and on a bad day when cash was short the women could simply trap the fish necessary for the day's meal. Today in many families neither the men nor the women can afford the price of the fish in the market. Nor do they have enough cash for the *nasongo*, the sauce to cover the rice. The women are expected to provide fuel and food for the entire extended family, often with only a minimal contribution from their husbands. The financial burden is occasionally mitigated by sharing the provision of food with the other co-wives. Even in polygamous households women must raise important sums of money each month. In addition the women must carry water from the river and grind millet or pay extra for the ground flour. The need to be a productive member of the family thus contributed to the interest and determination in setting up the Co-operative.

Before the creation of the Co-operative, the incomes earned by women in ancillary activities, such as sewing strips of cloth together, or selling foodstuffs, were low. The chance to earn a stable income and to learn a skill in the Co-operative transformed these women's lives. Moreover, having a workplace and an identity is still a source of great pride to these women. Before the Co-operative all the women worked independently: none collaborated or pooled resources with other women. In fact they were particularly secretive about disclosing their skills at first, even though they were of limited commercial value.

### Membership aims

When the co-operative was first established in 1975, some 200 women were interested in joining. However, only 20 determined women remained after the difficulty of the work and the long-term time investment became clear. Today there are over 50 members and a long waiting list for membership.

From the beginning members rejected non-remunerative activities such as literacy and numeracy, training in health and nutrition education as irrelevant to their lives. Members could not afford to indulge in marginal activities due to their precarious financial positions. They did, however set up a 'social fund' to buy medicines and a revolving savings fund. Much later in 1980 members began numeracy classes having already overcome their previous financial insecurity.

The co-operative began with a small capital fund made up of membership fees (of 30p to 50p each) and outside grants. With this they purchased cloth, dyes, and oils for soapmaking. They decided that each member would be paid the same salary rather than having a piece rate system. Later they introduced a production and attendance payment system. Individual tasks soon became specialised. The women gradually realised that in order to be successful they would have to improve the quality of their products. Previously they had seen themselves as 'doing nothing'. As a group, they recognised their potential and the need for training. First they hired local women skilled at



dyeing, then Bamako dyers; later they sent representatives to Banjul to study from the expert Gambian women dyers. Similarly with soapmaking, they learned the cold-process techniques from a local expert but then in 1979 they adopted the industrial boiling process, from a technician of the Technology Consultancy Centre in Kumasi, Ghana.

### Legal status

As an independent production co-operative the Markala women needed legal status and recognition. It corresponded with the group's structure and offered tax advantages. Despite the government's declared intention to simplify procedures for registering as a co-operative, the women encountered enormous difficulties. Without the assistance of Mrs. Thiam, it is unlikely that the Markala group or any other similar group of illiterate women would have been able to negotiate the legal formalities necessary for the acquisition of co-operative status.

### External assistance

The Markala Co-operative obtained funds and a vehicle from the Canadian University Students Overseas (C.U.S.O.) and funds for the co-operative building in 1978 from NOVIB, the Dutch Voluntary Agency. The most important contribution however came from the American Friends Service Committee (AFSC). Through the Project '*Femmes et Développement*' (FEDEV), of the Malian Ministry of Rural Development they provided:

- technical assistance;
- a millet grinding mill and diesel motor;
- funds for training programmes in cloth dyeing and soapmaking;
- funds to install and equip a soapworks;
- funds to set up and manage a retail outlet in Bamako for the sale of cloth, ladies and children's garments, soft toys and other household items.

## Management

The members decided to manage the Co-operative themselves. They would not, they decided, work for anyone else. Fearing external control or interference, they declined offers of support personnel from the government and donor agencies. Women cited previous negative experiences with government social workers who, in their view, patronised and sometimes exploited illiterate women<sup>1</sup>. Their preference was to call upon short-term technicians to address specific technical training needs. This decision has contributed to the success and cohesion of the Co-operative. They may have lost potentially useful technical advice in management, marketing and accounting, but the members have clearly gained from a strong sense of ownership and dedication to their own venture.

## Marketing

A second aspect of their control of their own destiny was the decision to set up a co-operative retail outlet rather than sell to middlemen. La Paysanne, an attractive shop and sewing centre opened in Bamako in 1976. As its size and reputation grew it marketed an increasingly large proportion of Markala's output. By 1980 the monthly revenue averaged £500 and the shop was selling almost all the cloth produced by the Co-operative. Direct access to the customers has helped the women to produce only what was in demand. It has encouraged them to improve their quality. Unsold cloth would simply be returned to the producer. The shop also buys cloth, chemicals and other raw materials in bulk to distribute to the 12 producers' co-operatives. They are troubled with the recurrent cash flow problems due to the four to six month time delay between buying the plain cloth and reselling the dyed cloth. They are concerned about the rising costs of transportation and the limited communication between the shop and the producers. These problems however are rather overshadowed by the achievements of the women in managing a major enterprise, setting up their own marketing outlet and in responding to the social and development needs of their members.

## Nieleni Rug-Making Co-operative, Segou

A second major co-operative which started out as a separate venture, has now combined forces with the Markala Co-operative. Together they now represent a major development movement within the country with considerable assets, a joint marketing retail outlet and a united voice in approaching the government.

The Catholic Sisters first set up a weaving workshop in Segou in the 1920s. Most of the women at that time adhered to both traditional and Moslem beliefs. The Sisters provided a school for the children and in order to bring the women closer to the Church they offered to teach them to weave. This was quite an unusual activity for the women at that time (although it was acceptable for the women to spin, it was normally men of a lower caste who carried out the weaving). Nonetheless the women were keen to learn this new skill and gradually became experts in weaving deep pile, knotted rugs on imported upright looms. For many years the women worked regularly for the mission. The rugs were sold throughout the region.

Production was interrupted during the extended drought of 1968-73. The wool supplies dwindled and the Sisters were finally forced to close the rug weaving workshop. The weavers returned to their former part-time jobs disheartened and disillusioned. They wanted to continue weaving but they lacked the marketing, management and financial resources to set up their own business. As explained by one of the weavers<sup>3</sup> the Catholic Sisters had trained them as 'blind' weavers: they were capable of doing the work but not of organising it.

### Finance for the Project

In 1978 and 1979, FRIDA carried out a study that indicated that there was a great potential for recreating the rug weaving project.<sup>4</sup> In 1981-1982, A.F.S.C., Bread for the World, Christian Aid, the Overseas Development Administration and the United Nations Association all agreed to support the project. They provided funds for building the workshop, for setting up production and marketing, and for providing a technical volunteer familiar

with co-operative management and accounting. Mariam Thiam also agreed to act as the overall director of the project. It had not been easy to obtain an agreement between the Segou women and donor agencies. The discussions took almost two years and involved a considerable amount of research and time in preparing a satisfactory project proposal. Without the support of Mariam Thiam and the external finance it is unlikely that the project would have taken off.

Today the workshop is 'buzzing' with activity and turning away several women each day who come in search of work.<sup>5</sup> There are over 50 full-time spinners, weavers and dyers and numerous part-time spinners in the surrounding villages. Nieleni recently held an exhibition of rugs in Bamoko. It was a great success and orders have been secured for many months ahead. The rugs are very beautiful: they are made from the local hand-spun wool in the traditional geometric designs of the Peul or Mopti blankets. The rugs can cost over £50 per square metre depending on the quality and the complexity of the design.

### Management

The workshop is defined as a pre-co-operative. The members decided to remain independent from outside interference at least until production was well established. The workshop is loosely managed by two or three key women who previously worked with the Catholic sisters. Most issues, including wages, are however openly discussed. The U.N.A. volunteer has deliberately maintained a low profile in the management of the centre and has worked closely with two counterparts.

### Future Plans

Ultimately it is hoped that the centre will be able to produce 30-40 square metres of rugs per month (worth £2,000). First the women are determined to secure a regular and secure income. Once this is assured they have indicated that they would like to develop other women's activities at the centre such as:

- holding literacy classes at the centre;
- having a washing area where Peul (nomadic) women can work permanently building up a proper laundry business;
- a restaurant;
- other craft workshops.

Nieleni undoubtedly has many prospects as a women's centre provided the spirit of commitment and enthusiasm can be maintained. The rug-making project is some years behind the Markala Co-operative: they still have to develop their confidence and identity. It is too early to make a clear evaluation of the project, although the rug making does seem to be cost effective. The obstacles seem to be more related to management, financial control and administration.

### Conclusions and Policy Recommendations

The major benefits of the two projects are summarised below. They have provided:

- a regular cash income for the members;
- skills and training, "women who did not know how to do anything before now make beautiful cloth"; and in the Nieleni Pre-Co-operative the weavers who were once 'blind' are now learning how to manage and finance their own business;
- access to capital, technologies and technical assistance from the government and overseas agencies;
- status and recognition as the expert producers of beautiful cloth and rugs;
- power in developing their financial autonomy and decision-making authority;
- self-confidence in their ability to generate income in the future and to have some control over their lives; their achievements have also given them confidence to influence others;
- the security of regular employment, the support of fellow-members and access to a social fund in case of illness.

One of the most important lessons for policy planners emerging from this study is that they must acknowledge the priorities set out by the women themselves. If by development they perceive a need for a real cash income then the planners should not in preference introduce other national development objectives such as literacy, nutrition or education. Only when participants perceive other activities as significant or useful to them, should they be added. It is also important, at least initially, for the activity to provide immediate benefits otherwise there is the danger that the members will give up or drop out.

One of the greatest difficulties in Segou has been in persuading the women that it is their 'own' co-operative. They were accustomed to being employed by the Catholic Sisters and thus accepting an ancillary role. They have found it hard to make decisions and to accept responsibility for the ownership and management of the workshop. Wages are discussed as if they are paid by an invisible hand rather than as a result of the women's own labours. Women's income-generating projects need to include a training programme in small business management and organisational skills. The achievements of women's projects should not only be assessed in terms of reaching specific production levels but rather in terms of their entire development effect on women in raising their confidence, their status and influence in the community.

Women's development projects usually only come to fruition where they are pushed by a dedicated and tireless leader such as Mariam Thiam. She has been totally committed to the idea of self-reliance and has acted on behalf of the two projects, even when she did not agree with their actions. Participants and donors should ideally identify a leader or leaders early on in a project and provide support and further leadership training where necessary. While donors are ready to invest in buildings and income activities they are less keen to provide a vehicle and fuel for an identified 'leader' to visit projects and effectively carry out her work. Other lessons emerging from the study of these two projects are, that:

- technical assistance should be appropriate and specifically designed to respond to particular needs and problems;
- job training is expensive and time-consuming and must be realistically evaluated by the donors;
- project implementation takes a long time (up to 5 years) and the donors should be ready to continue technical assistance and support over an extended period;
- a co-operative infrastructure provides a framework for women to pool their resources and to learn from each other, while at the same time earning an income.

It is hoped that the experience of the women in Mali will be of interest and of assistance to other women who are being displaced from traditional income activities and neglected by the donor agencies.

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# THE CO-OPERATIVE MOVEMENT IN THE CAPE VERDE ISLANDS

## A SURVEY

by

Richard Morgan and Shallin Chaudhry\*

Co-operativism in the modern sense is only some nine years old in the Cape Verde Islands, and the country itself is similarly young. Both have been able to benefit from earlier development experiences in post-independence Africa and thereby avoided some of the mistakes that arose elsewhere, perhaps as much from over-enthusiasm as from inexperience. This article is intended to give a brief introduction to the country's co-operative sector, its progress and the strategies being followed under very harsh and limiting economic circumstances.

Cape Verde reached its Independence in 1975 after a long armed resistance to Portuguese colonial status which was conducted jointly with the nationalist movement in Guinea Bissau; indeed, many Cape Verdeans took part in the war on the mainland many hundreds of kilometres distant, the success of which was instrumental in the fall of the Portuguese dictatorship in Lisbon itself.

This war came at the end of a 500 year period of incorporation into the Portuguese empire, and had easily-discernible causes: the persistent neglect of the islands by the authorities has extended not only to an almost total absence of investment but also to turning a virtual blind eye to the famines which affected the population over the centuries. The population, descended mainly from West African slaves and also from a small number of emigrants and outcasts from Portuguese society - hence its *mestiço* nature - has not grown since the 1930's due to the combined effects of starvation and emigration,

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and stands at nearly 300,000. An equal or greater number of Capeverdeans are resident in Europe (mainly Holland and Portugal) and in the United States, which was the first country to receive distressed Capeverdeans in substantial numbers. Smaller emigrant communities exist in other parts of the former Portuguese empire (e.g. Angola, Brazil, Sao Tomé).

Conditions facing the residents of the islands at present are severe. Despite about 70% of the population being dependent on agriculture, this sector contributes only 17% of a Gross Domestic Product of around U.S. \$50 million, and fisheries, mainly artisanal, another 5%. The secondary sector is also very weak and, with almost no exploitable natural resources, services make up over half of the national income, largely in the provision of facilities for international maritime and air transport. It is reckoned that about 29% of the active population, excluding housewives, are unemployed, with another 22% dependent on the large public works programmes geared to conservation and road-building which are run by the government.

The main reason for the weakness of the economy, apart from lack of resources and the country's geographical isolation (being nine inhabited islands some 450 km of the West Coast of Africa), is the unbroken series of drought years which have persisted since 1967. Rainfall shortages have been more severe than in any other of the Sahel countries with adverse effects on the production of basic food crops and on livestock numbers, which fell by 37% between 1970 and 1980. Presently, irrigated land is estimated at only 1,800 hectares, almost all in small plots of below four to five hectares on the islands of Santiago and Santo Antao, whilst about 34,000 hectares are cultivated under rainfed conditions. Yields under irrigation are on average seven times higher, and value added per hectare at least thirteen times higher, due to the use of scarce irrigated land for higher-value crops such as fruits, vegetables, sugar cane and coffee. At present, Cape Verde is meeting only about 5% of its basic food needs from internal production and even with a tripling of the irrigated area and an improvement in the rainfall regime, would on the most optimistic estimates be able to cover only 40% of such needs by the year 2,000.

In spite of this dire situation, the post-Independence government has been successful in maintaining a functional economy where basic necessities are adequately available, access to education and primary health care have rapidly expanded, and rates of malnutrition and infant mortality are dropping sharply (and are below the norms for West Africa). Additionally, it has managed to effect a high level of mobilisation of village populations for development through 'mass organisations' of women, youth, co-operatives and local administrative committees.

### Cape Verde's Development Strategy

The government, under the direction of the sole political party, the *Partido Africano da Independência de Cabo Verde (PACIV)*, has as its medium-term aim the survival of the economy itself and the consolidation of national viability. The strategy being followed depends, at the national level, on the use of generous international aid (reckoned in 1980 at U.S. \$83 per capita) for investment in a small number of strategic income-generating projects (a ship-repair yard, a cement plant, saltworks and a modest industrial fishing fleet); on the continuation of a high level of emigrant remittances to maintain private consumption and investment (particularly in home construction); and on careful regulation of imports and finance. On the local level, the development strategy is based on the concepts of 'popular participation and production', assisted by technical and material support from the government, to ensure the distribution of benefits from projects and local resources to community rather than individual level. 'Popular participation' recognises that labour is Cape Verde's main internal resource, and that policies based on its voluntary mobilisation are the only practical alternative to authoritarian government. The PACIV's particular form of participatory politics is intended to achieve a national consensus within a one-party framework based on local level organisation and decision-making, thus ensuring political choices which will direct resources to the satisfaction of basic and immediate needs. Voluntary participation in the

'mass organisations' is the key element in this strategy, and the co-operatives in particular are seen as having to provide the organisational stimulus for production on an associative basis in order to meet these needs. In addition, the creation of an agricultural extension service to provide technical support for production groups, and the implementation of cultural groups based on the national literacy programme are seen as crucial elements; the first of these is backed up by a gradualistic programme of land redistribution with the aim of eliminating the feudalistic sharecropping system, and bringing the larger irrigated or irrigable areas under state or eventual co-operative control. In general, then, the promotion of co-operative forms of economic relations is felt to be central to the realisation of the aims of the Capeverdean government and to the reduction of the difficulties facing the rural population in particular.

#### Origins of the Co-operative Movement

Whilst there was no formal co-operative tradition in the islands prior to Independence, ties among and between families in rural villages and urban *bairros* were and remain strong, and could be relied upon for mutual aid (e.g. for funerals) and reciprocal labour (for housebuilding and land preparation). On this has been built an effective practice of organised voluntary labour. Thus, in the period between the overthrow of the Portuguese dictatorship in Lisbon (25th of April 1974) and the formal Independence of the islands (5th of July 1975), the nationalist movement, victorious in the war on the mainland, was able to stimulate, semi-clandestinely, the creation of scores of small village societies. The main activity and urgency lay in the securing of the provision of basic consumer goods in the villages, given the partial collapse of the private trading network with the withdrawal of many of the Portuguese. Voluntary labour contributed to the creation of stores and trading posts, and to the supply of basic management. Out of the initiatives of this euphoric period, only eight consumer societies emerged on a permanent basis, all on the island of Santiago, which has half of the country's population. Most of them were consolidations of a

number of small initiatives, and retained multiple selling points. Also on Santiago, some irrigated properties were occupied, or abandoned and handed over to associative groups; of these, only a small percentage became permanent co-operative units.

The Party quickly recognised the need to regularise policy in the sector, and hence set up a co-ordinating body, the *Central das Cooperativas*, in April 1975. In October 1978 this was given a more autonomous role and juridical personality as the *Instituto Nacional das Cooperativas (INC)*, which soon thereafter effected the basic co-operative law.

#### The Instituto Nacional das Cooperativas (INC)

The INC retains non-government status in Cape Verde, but is closely aligned to, and reflects the aims of, the country's sole political party. In a technical sense, it works to a considerable extent under the supervision of the Ministry of Rural Development. The internal structure of this still small and centralised organisation is made up of a President, responsible to a technical consultative committee with cross-ministerial and Party membership, and an internal administrative committee which deals with areas such as finance and management. Distinct sections exist to handle projects and technical assistance on the one hand, and information and extension on the other; these are co-ordinated by an executive secretary.

INC is nominally responsible for a wide range of tasks: execution of co-operative policy, co-ordination of the movement, representing the interests of societies, organising various forms of support to them, and generally popularising co-operative principles. In a young country with a high priority accorded to the sector, all these functions are viewed with urgency; the INC has, however, given clear preference to the establishment of the bases for carrying them out first, avoiding the overstretching of its meagre human resources. In this sense, one can point to a particular emphasis in its first years on the following:

- training of middle-level personnel, especially in the areas of co-operative organisation and planning, budgeting and accounting;
- gradual decentralisation of the Institute's structure as field staff are trained and can be deployed, based on regional 'concertation committees' and eventually promotion centres;
- consolidation of the relatively small number of existing established co-operatives while the regional and local capacity to respond to new initiatives is being built up;
- the assuring of basic, if initially rudimentary, credit and advice facilities to existing societies.

Of particular interest for the future of the movement is the funding channel that was established by INC during 1982, the *Fundo de Apoio às Cooperativas (FAC)*. Whilst the exact terms of operation of the fund are not yet decided, it seems clear that it will, for the first few years, effectively convert donor aid to low-interest credit for individual societies, thus ensuring some circulation of funds within the movement and encouraging assessment of credit-worthiness in new initiatives. During the pilot year of operation, about £3,500 was disbursed, mainly in short-term seasonal credit to agricultural projects for recurrent inputs, hiring of labour and small items of equipment. Roughly half of the credit was repaid on time. During 1983 and beyond, the FAC, under the Institute's management with representation of the societies on the decision-making committee, is expected to extend to the consumer and industrial sectors in particular, and to grow in size of disbursements to a level of about £40,000 a year by 1985. In this way the fund will come to cover the major capital investments undertaken by societies.

From the above, it will be deduced that the central organisational body of the movement is in a crucial and formative phase, where the achievement of the most appropriate pace of development and expansion - of cadres, of credit, of regional structures - is all-important. Balances are being struck between the capacities of the Institute, particularly in terms of trained Capeverdean staff available, and both the

political desire for increased cooperativisation of production and trade in society and the (generally weaker) demands for assistance and support from individual societies and pre-co-operative associations.

### The State of the Co-operative Movement

By 1983, there were some 31 co-operatives and advanced pre-co-operative groups in Cape Verde, employing some 444 people, as follows:

<u>Sector</u>	<u>No. Societies</u>	<u>No. Employed</u>
Agricultural/livestock	9 (5)	94
Consumer	13 (12)	37
Industrial/artisanal	7 (7)	304
Fishing	2 (1)	9

The figures in brackets represent the 1980 situation; as can be seen, the agricultural sector is currently the fastest-growing part of the movement in terms of the number of societies; yet it is in the 'industrial' sector where most of the new employment is to be found, with some 75% of the movement's total employment. This figure has risen by 62% over the last two years, mainly due to expansion of the secondary sector societies, which in turn reflects increasing urbanisation and consumer demand in the two harbour towns of Praia and Mindelo, with populations of around 40,000 each.

Membership at the end of 1980 was 3,158, covering 1.06% of the total population or 5.38% of the total families. This membership was overwhelmingly (95%) based in the consumer societies, which had an average membership of 370, and located mainly on the island of Santiago, where 12 of the 13 consumer societies are to be found. The regional concentration of the movement is a feature of some concern, but the industrial and fishing projects have given the INC an improved contact with other islands, such that seven recognised societies exist outside Santiago island (which has 49% of the country's population). In addition, a number of development projects in course are attempting to work towards the establishment of co-operative forms of organisation in agriculture and fishing throughout the archipelago; this policy

arising from the concern with popular participation, will incidentally work to overcome this regional bias.

As described above, local priorities themselves initially emphasised the consumer supply networks; with effective control established over the importation of basic goods, attention turned, shortly after Independence, to the relatively more technically-demanding production sectors. The Rural Development Ministry, and to a lesser extent the Fisheries Department, have been increasingly able to offer technical support to the INC's extension work in the agricultural and fishing sectors. Project funding has tended to follow this changing emphasis, and some idea both of the pattern of external investment in the movement and its distribution by sector can be gained from the tables below:

<u>Years</u>	<u>Societies Formed</u>	<u>Total Aid to Movement</u> (Contos)* (aid and labour in kind only, value unknown)
1975	10	3,692
1976	4	2,091
1977	2	329
1978	1	867
1979	1	27,719
1980	7	32,626
1981/82	6	
1983 (provisional)	?	

\* One conto = £9.35 approx.

Aid received has increased sharply since 1980, partly as a result of the establishment and growth of INC, and its training and promotion activities. It is worth noting that, of the aid from international sources shown above, virtually 99% came from non-government sources, which, it can be argued, represented highly sympathetic and flexible constituencies for the birth of a series of small-scale societies, and were highly disinclined to exert undue pressure on the movement in its earliest states of formation.



International aid to the movement from 1977 to 1983 by sector has been as follows:

<u>Sector</u>	<u>Aid Received (Contos)</u>	<u>Percentage of Total</u>
Agriculture	9,950	25.9
Consumer	10,251	26.7
Fisheries	2,439	6.3
Industrial	10,797	28.2
INC/Promotion	4,853	11.9

The absorptive capacity of each sector for the aid received as above has, however, been highly variable, reflecting the differing characteristics and difficulties in each one: it is estimated by INC that the agricultural sector co-operatives have used about 52% of the aid available, and fisheries only 12%; the other areas have been able to absorb 80% or more.

### Progress and Problems by Sector

In a small economy with a very low growth of internal production, and lacking in clearly profitable economic activities (beyond services to international transport and the exportation of labour), it is not surprising that efforts to promote co-operative enterprise have been spread over a number of sectors, and that the INC's strategy is polyvalent in this sense, despite the technical difficulties posed by diversification. We will look briefly at the opportunities and problems existent in each of these sectors.

#### 1. Agriculture and Livestock

A co-operative strategy has been found to be appropriate, both in terms of local and economic conditions and of political preferences, where the private ownership of scarce water sources and of irrigable land has become increasingly unacceptable since Independence. In view of the scarcity of this basic production resource, the associative exploitation of underground and surface water sources has not only appeared more 'socially just', but also

in certain locations has afforded a more productive use of water. A clear incentive for group co-operation exists in such cases, where yields to labour inputs on irrigated as opposed to rainfed land are normally several times higher, and where higher-value crops can also be grown.

Of the seven agricultural societies for which we have data, only one has a wholly collectivised production system, the others being primarily marketing and service co-operatives producing with a high level of labour sharing, but mainly on individually-held plots. Almost all have set aside small areas of up to  $1\frac{1}{2}$  hectares for communal production beside the individual plots which take advantage of the local water source. At present roughly 75% of the total area worked (about 120 ha. in these societies) is irrigated and the main products are fruit and vegetables, cane juice for liquor, and associated small livestock. Many of the societies face continuing water problems as the yields from the sources on which they depend continue to drop, and most of the developmental investment envisaged is in the areas of improvement of water supply and irrigation infrastructure, as well as for diversification into intensive small-scale livestock production. Services from the co-operatives mainly consist of seasonal credit to member-farmers, access to water supplies, storage, marketing and processing (in the case of liquor production). Little information is yet available on profitability, but what there is suggests that the possibility of financial viability is closely related to the future availability of adequate water supplies, and is currently adversely affected by the prevailing drought-induced shortages.

## 2. Consumer Societies

As indicated, these are geographically concentrated, and are also limited at present to rural areas short of outlets for basic goods and relatively unattractive to private traders. Relations with the state-owned import organisation, *Empresa Pública de Abastecimiento (EMPA)*, are very close, and as a result the co-operatives tend to stock only basic products at fixed prices, as does EMPA itself in its mainly urban sales outlets. The majority are short of

working capital, which limits their ability to buy from private sources, thus diversifying their range of goods, and increases dependence on EMPA, which in effect provides an important source of short-term credit to the co-operatives additional to that available through FAC. Dependency is reinforced by lack of owned transport, although the possibility of renting does exist. Despite these difficulties, the existing societies dispose of a high level of membership support, and are tending to expand their networks of selling points in smaller settlements, often aided by voluntary labour from the communities concerned.

### 3. Fishing

The lack of expansion of this part of the movement has been somewhat paradoxical. Cape Verde disposes of considerable fish resources in its 630,000km<sup>2</sup> territorial waters, with tuna as the main exploitable species followed by lobster, swordfish, shark and other varieties. Canned tuna and live lobster in particular have considerable export potential. Catches have remained very low however. Apart from a small state-owned commercial fleet, the sector is made up of about 800 small (usually 3-5 metre) boats, two or three fishermen to a boat, with catches averaging some 6 tonnes a year per boat. With improved equipment, it is thought that yields of up to 15 tonnes per year could be achieved by these boats.

The promotion of co-operatives, based around investments in motorisation and improved marketing for internal consumption using coldstores and refrigerated transport, has been faced with difficulties: the small size of the basic production unit, the year-to-year fluctuations in catches, cyclonic weather, and perhaps above all the persistence of allegiances to local boat owners who traditionally take a fixed percentage of the catch. These factors have so far combined to retard the growth of co-operation, although the close collaboration of the Fisheries Department and the INC in a number of small pilot efforts on various islands is beginning to lead to the formation of viable associations. Widescale co-operativism in fishing, however, is likely to come about only as the result of long-term education and extension work, with

conditions of access to credit, and storage and marketing infrastructure being improved in parallel to these efforts.

#### 4. Industrial and Artisanal Co-operatives

This sector is currently composed of three textile, three carpentry/joinery and one construction co-operative, with a ceramics enterprise in formation. All these existing societies are situated in, and cater for, the two urban centres; as has been seen, they are the most dynamic part of the movement at present. They benefit not only from an underserved and relatively fast-growing market, but also from the expansion and influence of the state sector, which has favoured co-operatives in contracts for construction, provision of school furniture, etc., and which also acts to favour local production and finishing of light manufactured goods through a selective and restrictive imports policy. In this area, linkage between the state and co-operative sectors has been particularly effective in the creation of permanent employment in labour-intensive production enterprises, and the application of the FAC credit programme is expected to continue to encourage this expansion.

#### Strategies for the Future of the Movement

It may be seen that, despite the severe difficulties of Cape Verde's internal economy, its extreme ecological conditions, and the lack of trained staff available at local level, the co-operative sector is favoured by certain factors to take advantage of small-scale economic opportunities and of growth related to international aid and emigrant remittances. The particular disadvantages of the sector can be summarised as follows:

- smallness of size, vulnerability to climate and economic pressures, and dependence on public sector institutions;
- financial difficulties, lack of accounting, planning and management skills at society level, illiteracy among members etc.;
- lack of readily exploitable natural resource to act as a surplus-generating 'engine of growth' for the movement.

These, however, are difficulties experienced throughout the country, particularly among small enterprises, at its current level of development.

The co-operatives are favoured to a greater or lesser degree by the following:

- a continuing ability to draw on local support and voluntary labour, although this will depend increasingly on demonstrated ability to meet local needs;
- a favourable policy environment created by the Party and State structures, expressed both in terms of economic privileges and ideological support, as well as a close identification of economic with political development in the context of the 'popular participation and production' strategy;
- an expanding advisory and promotion capacity in the apex organisation, the INC, which although presently highly concentrated in its efforts is clearly committed to decentralisation both of staff and of training and member education activities;
- on the national level, privileged access to credit, and assistance with supply, importation, marketing and in some cases contracts from the State and parastatal sectors;
- sympathetic, although not always critical, international aid on a flexible basis from a large number of non-government agencies.

In addition to the above, examples of the support given to co-operativism by the political systems include the important step of setting up 'dynamisation and support commissions' at regional level, taken by the Party in conjunction with the INC and representatives of local organisations. It is hoped that these will be effective in spreading the co-operative ideal. Also to be emphasised are the various forms of extension support from the line Ministries through their field stations, state farms and local delegations. Such measures add up to an environment intended to be conducive to the growth of co-operatives as a matter of national political choice. Conversely, and despite the priority given this, the authorities have so far resisted the temptation to create co-operative forms rather than working with and encouraging independent initiatives where the

peasantry or semi-skilled workers have recognised already a possible benefit to co-operativism. It is probably crucial for the health of the movement that this balance is reasonably maintained under the social conditions prevailing in Cape Verde: the strategy currently followed varies, although not in ultimate aims, from that followed in other former colonies of the Portuguese African empire which have recently won Independence, particularly in the nature of State/co-operative relations. Cape Verde's more gradualistic approach takes advantage of the absence of an external military threat to a progressive post-Independence political system, and of a much less extreme breakdown in the overall economy at the end of the colonial era: thus co-operativism can in this case be viewed as much as a political preference for the medium to long-term as an intermediate economic imperative to guarantee the satisfaction of short-term human needs.

Finally, in terms of the location of new economic activities over the next few years, INC foresees particular possibilities in a number of small-scale, mutually-reinforcing activities at district level, including consumer shops, small construction associations, ceramics, crafts and woodworking activities, fishing and food processing. In the urban areas and their suburbs, it is hoped that co-operatives will make further penetrations of the consumer and small manufactures market; additionally, opportunities will exist for associations of house-builders on the basis of self-construction in these zones. Initiatives in these areas would clearly depend to a large extent on the enlargement of INC's technical capacities, and on its success in continuing to enlist assistance from other national agencies. With this proviso, and despite its presently minor role in the economy, it can be argued that the Cape Verde co-operative movement has created a solid base for gradual expansion, and will be assisted in this by the support of the international community and of the country's political leadership. Given an improvement in the rainfall regime, the movement would be in a position to take advantage of such an upturn in national fortunes, and of the stimulus to production and consumer demand that would result.

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## LAND PURCHASE CO-OPERATIVES IN THE SOLOMON ISLANDS\*

by

John Launder\*\*

Success stories of co-operative farming programmes are rare and yet in the Solomon Islands a group of land purchase co-operatives have developed a form of communal farming which has demonstrated some significant agricultural and economic developments in the last ten years.

Land purchase co-operatives (L.P.C.) have developed as a means by which Solomon Islanders can recover alienated land in the form of expatriate-owned coconut plantations. The land for these plantations was acquired by the expatriates in the late nineteenth, early twentieth centuries and large-scale plantations were developed. However, Solomon Islanders still considered that they had customary claims to these lands and sought ways to recover them, especially as economic development and the move to political independence (1979) proceeded.

The first L.P.C. began operation in 1973 with assistance from the Government's Agriculture and Co-operative Departments. Since then they have been assisted by a Land Use Development Department (L.U.D.) supported by technical and financial aid from the British Overseas Development Administration.

In the ten years 1973 to 1982, 23 L.P.C.'s had recovered over 7,000 hectares of plantation land, which involved over 2,500 members. The co-operatives are operating the plantations as communal farms and agricultural development, while varying from

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\* This paper is based on a research study carried out for ODA/ESCOR by the Co-operative Liaison, Education and Research (CLEAR) Unit of the Co-operative College, Loughborough.

plantation to plantation, has been considerable. However a lack of corresponding management development is a cause for concern.

this paper will discuss the organisational features of land purchase co-operatives as a particular form or 'model', of communal farming, and attempt to analyse the performance and motivational factors involved with a view to assessing future prospects. In particular, the strengths and weaknesses of the 'model' can be presented and an analysis made in terms of a 'life-cycle' within the development process.

### The Solomon Islands: Agriculture and Land

The Solomon Islands lie in the Western Pacific Ocean some 1,000 miles northeast of Sydney. The population in 1979 was 221,000, but the estimated growth rate was 3.3%, high even for a developing country<sup>1</sup>. The country consists of six major islands and a large number of smaller ones. The main islands are mountainous with thick dense bush vegetation on steep slopes. The good agricultural land lies on the coastal strips and it is here where coconut plantations are to be found. Copra, the dried coconut meat, is the principal cash crop of the agricultural economy and in 1979 the principle export earner. To a large extent the fortunes of the agricultural cash economy depend on the copra price which has moved up and down significantly in the last ten years and since 1979 has been gradually falling. The external factor regarding the copra price is seen by many, including the members themselves, as a major constraint on the Land Purchase Co-operatives and has encouraged the diversification of their farming into cocoa and cattle.

The land tenure system of the Solomon Islands divides land holdings into customary and alienated land. Custom land, a powerful feature of the Islands and which accounts for 87% of the area, is land held under customary practice by kinship groups or 'lines'. A primary member of the line may freely occupy virgin land of that line and by farming and establishing crops, partly tree crops, thereby create an individual interest in a parcel of land.

Alienated land, i.e. land alienated from custom, accounts for some 13% of the total land area. However the alienated land includes much of the best agricultural land on the coastal strips of the high islands, the forest regions of the Western Solomons and the highly fertile Guadalcanal plains. Europeans who came to the Islands around the turn of the last century established coconut plantations in some of the best agricultural sites which until very recently accounted for the largest share of copra production, and much the largest share of copra exports; Lever Brothers still remain the largest and most efficient copra producer in the Islands.

However, since the Second World War copra has been a less profitable crop, many plantation owners have either left the Solomons or have continued production without real development of the plantations. As a result, by the 1970s the plantations which the L.P.C.s wished to recover were often in a poorly maintained state with aging coconut trees. Hence the co-operatives, on taking over needed to engage in considerable maintenance, 'brushing' and development work to restore the plantations for future viability.

Since independence only the Government and Solomon Islanders may hold freehold titles to alienated land. Non-Solomon Islanders may lease land on a fixed term estate; all previous freehold titles held by non-Solomon Islanders have been converted to fixed term estate. The L.P.C.s begin farming as holders of a fixed term estate, but their aim is to attain the freehold title to the land.

### Formation

A land-purchase co-operative is formed by groups of people having traditional claims by custom to the ownership of the land covered by a plantation coming together, and with the assistance and advice of Government officials beginning the formation procedures. At the early stages it has been considered important to include in the group all persons who may make custom claims on the land in question, to avoid custom disputes over the plantation in the future, and the provincial governments have been active in ensuring this has occurred. However another outcome is that the membership of the L.P.C. may include a number of persons who do not have an interest in employment and

income from the L.P.C., their only interest being in the land itself. Often the non-working members form a small majority but there were instances when they became vocal in arguments over land use following loan repayment and attainment of freehold title.

The next stage is to prepare a development plan for the plantation, necessary to secure the purchase loan from the Development Bank of the Solomon Islands (D.B.S.I.) The D.B.S.I. will usually advance 90% of the purchase price, and sometimes more, but may also impose conditions such as the co-operative working for a limited time under a short-term licence to ensure members' commitment to work plans.

The third stage is to register as a co-operative society. This establishes a legal entity which itself owns the land in a corporate manner. Under the co-operative law, if the co-operative is dissolved, its assets are not divided amongst its members. This is intended as a legal means of keeping plantations intact. However, if disputes over land and claims to land produce a situation whereby the members wish to farm the land individually, then there may be little that the law can do to prevent de facto individual working of the land. Nevertheless, corporate ownership by the co-operatives is a means by which minorities can have a reduced influence within the co-operative when it comes to land arguments.

### Organisation

One aspect of the L.P.C.'s which provides advantages not always enjoyed by co-operative farms starting from scratch is that, taking over an existing coconut plantation, they derived an income immediately from copra production. However, given the fluctuations in the copra price and its general low level, L.U.D. policy borne of necessity was for diversification of the plantations into cocoa and cattle production. Another general feature of the plantations was that the the majority of cases they had been poorly maintained for a number of years by the previous owners: in some cases the land on which the coconut trees were growing had almost reverted to bush undergrowth. The plantations therefore required considerable development work in order to allow good levels of copra production. Secondly, the coconut trees themselves

were largely aging since previous owners had not planted new trees for a very long time. Most of the trees were nearing the end of their useful productive lives and therefore, with the exception of one society of those studied, replanting was required, and good hybrid trees would take at least five or six years before coming into production.

Planning and organisation therefore had to divide the labour and other resources between production to provide incomes, particularly for wages, and development: replanting, maintenance and establishment of cocoa and cattle.

Copra production comes from the collection of fallen coconuts, their 'cutting' to remove the white meat of the coconut and then drying of the meat to produce copra. Copra cutting and 'cooking' is a skill held by most adult Solomon Islanders; it is hard work and usually paid on piece rates, such that cutters could earn quite high wages. Development work on copra started with 'brushing', the cutting down of undergrowth to provide a floor beneath the coconuts which allowed weed control and also allowed nuts to be easily gathered. Replanting of nuts involves the setting of seed nuts in rows amongst old trees, as once the new trees start to produce the old trees are poisoned out.

Five of the L.P.C.s studied were developing cocoa, which takes three to four years from planting to first harvest. Considerable local care and attention is required in the early stages in planting, shading the young seedlings and later in pruning the bushes. It was found that cocoa care and development were well-suited to women workers, and most plantations engaged women members as the cocoa section. Production of cocoa is obtained through splitting the pods and extracting the cocoa beans which are then fermented and dried before being sold.

The establishment of cattle on the plantation was greatly assisted by the Cattle Development Authority (C.D.A.), a para-statal organisation for the purpose of encouraging meat production in the country. Good-quality calves and heifers were made available from the C.D.A. assisted by loans on easy terms. Grants were available for the establishment of paddocks and

considerable work has been done in developing suitable cover crops, usually legumes, as feed. On a coconut plantation there is an additional advantage that grazing cattle provide free brushing beneath the coconut palms. The cattle operations were essentially fattening and sales were made again to the C.D.A. at attractive prices. Hence cattle could be a strong income earner to a Land Purchase Co-operative.

Labour Organisation. A standard policy for the Land Purchase Co-operatives was that members would work on the plantations roughly half the working days in a year. This provided the commitment to the plantation which enabled planning and it also allowed members to pursue other economic activities on their smallholdings, fishing etc. Some plantations had poor attendance by the members in which case work planning was done on a daily basis. However, on the more organised plantations with better attendance labour organisation was planned.

Wages. Although most members earned the basic wage there were differentials on every plantation studied. However, the highest wage, usually that of the manager, would not exceed twice the basic wage. In addition to wages five L.P.C.'s paid a cash bonus based on days worked by each member.

The origins and organisation of the L.P.C.s provided a model for co-operative farming in particular circumstances. The strengths and weaknesses of this model will be considered later in the paper.

### Performance Objectives.

The Communal Farms Project, the ODA funded support project for the L.P.C.s, had stated objectives as follows:<sup>2</sup>

- a) to return expatriate-owned land to traditional land owners;
- b) to do this without loss of production and to develop the land on a commercial basis using modern farm techniques;
- c) to provide a source of employment and income to people in rural areas.

Land Recovery. Between 1973 and September 1982, 23 L.P.C.s had been established and had taken over 7,339 ha. of land, of which 3,323 ha. was already under coconuts. Total membership of the L.P.C.s stood at 2,572 (Sept, 1982) which, given the average family size, could mean that 14,000 persons had an interest in the future of co-operatives. Land recovery was the primary goal of the co-operatives; this was expressed by all people interviewed and was further demonstrated in that the L.P.C.s had consistently met their repayments on purchase loans.

Maintaining Production. No figures were generally available on production by previous owners to permit comparison with that of the L.P.C.s. L.U.D. reports<sup>2</sup> state that there had been a 10% or more decline in plantation production over the preceding ten years. In contrast, the majority of L.P.C.s studied were actively developing their plantations, growth had replaced decline and as such helped to create a more positive climate of expectations.

While copra production to date has been disappointing in general terms a number of reasons can be identified, and in terms of the viability and future prospects of individual L.P.C.s low copra production is not necessarily a major constraint.

Development on a commercial basis using modern farming techniques. In terms of agricultural management, the assessment would be that plantation maintenance and development was of a better standard than under previous owners. Many of the members had previously worked on plantations and of these significant numbers had held supervisory ('bossboy') positions. Many of the L.P.C.s showed considerable development of brushing, re-planting, cocoa planting and cattle paddock development, and there were many examples of members being quick to adopt new and better techniques of fertiliser application, spacing, spraying and the use of machinery. Attitudes to 'investment' were usually positive, the general response being that higher income could only be assured through hard work now and diversification into cocoa and cattle.

Table 1

Development and Investment on the Twelve Plantations Studied

Original coconut area	1,754 ha.
Coconut planting	182 ha.
Cocoa planting	49 ha.
Cattle	412 head
Additions to Fixed Assets	SI\$ 10,4040

The level of achievement is not spectacular but should be considered against both the limits on resources and finance noted earlier, and the lack of development under previous owners. In addition, much of the development work such as brushing, road-making and cattle paddock development could not be quantified, but would be a significant addition to Table 1. What is clear, at most of the L.P.C.s, is that the members perceive their progress in developing the plantation, and this reinforces motivation towards farming goals.

In addition to physical developments there is also significant use of better farming techniques on the plantations, and also reports of spill-over to members' own farms. In the Solomon Islands, the relation between man and nature, between the farmer and the land, has been largely a harmonious one. Traditional agricultural practice in the past was that of 'shifting agriculture' ('slash and burn') where the land is cultivated extensively rather than intensively. Customary land tenure complements this. However, plantation farming is intensive, and requires technology for the 'mastery of nature' with the use of fertilisers, herbicides and machinery. As L.P.C. members appreciate their ability to master nature on a large scale, demands for individual units of land from the plantations will reduce. This is evidence of positive attitudes to learning new practices in the L.P.C.s, and to becoming modern farmers. Hence the L.P.C.s were contributing to a change in cultural values which could be progressive in general agricultural terms, and vice-versa. Since members worked both on modern plantations and on their own traditional farms, then the effects would be strong.



Employment and Income Since these featured in members' goals for communal farming, it is important to assess the performance so far. In half of the L.P.C.s studied there was a standard workforce, working at particular times, e.g. on a month-on/month-off basis. In the other half the attendance fluctuated which made planning difficult.

For assessing employment, the concept of a work participation rate' was developed for L.P.C.s with a standard workforce. This was based on a general policy of L.U.D. that each member worked not more than half the annual working days on the plantation.

An important factor is that the members could see goals of regular employment being satisfied by the L.P.C.s. The great majority of them had little formal education and in the face of competition from secondary school leavers, saw the need to create their own employment. While the L.P.C.s are in their early stages the work is labour-intensive - copra cutting, brushing, planting, fencing etc. However once land is developed the need for labour may decline.

As regards incomes, the concept of 'value-added' was used as a measure of performance. This is calculated as gross income less all non-wage costs, and represents the income available for wages, bonuses and retained profits. In a co-operative farm it is a more meaningful measure than profit, since both wages and profits belong to the members.

It is judged that the net incomes created by and for the L.P.C./workers would be in great part an addition to what the community would or could have earned from other forms of land use for the following reasons:-

- under expatriate ownership the plantations were declining while under L.P.C. ownership they were developing and income was growing. The weighted average for wages and cash bonuses as a percentage of total value-added over L.P.C. lives was 62%; this would have been lower under expatriate ownership. Hence absolute earnings and share of earnings would be higher with L.P.C.s.

- in the absence of any work on a plantation, the extra income a person could earn from spending more time on his existing landholding would be marginal, given existing resource levels.
- a central issue in the development of L.P.C.s is their potential ability to earn higher incomes for the members as a group than if the plantation were divided and farmed as individual units. Taking account of resource availability, economies of scale and that members would still work their existing land holdings, it would be expected that the additional income created would be greater from communal farming of the land. Technically, the L.P.C. has a greater potential to exploit the plantation, with its extra and largely indivisible resources (buildings, machines, management) than an individual farmer would have with extra land but few extra resources.

Hence, there is a strong element of 'additionality' in considering the income, and production performance of L.P.C.s.

Wage rates are relatively low in comparison to those of the public service where \$3.36 was the lowest daily wage rate for non-established staff in 1980<sup>1</sup>. However, in terms of employment of persons with little formal education and training, and living in rural areas, the comparison is less significant. Wages from an L.P.C. form only a part of a member's income and wages were less important to motivation than other goals. From the spread of wage rates between L.P.C.s it may be deduced that a main determinant of wage rates was what the particular L.P.C. could afford. That is, wages were subordinate to other goals.

### Motivation

A principal purpose of the study was to ascertain the degree of motivation within the L.P.C.s towards the goals of land recovery and communal farming. While the goal of land recovery provided strong motivation, there was significant variety in motivation towards communal farming goals of employment, incomes and social projects.

## Land Recovery

This was clearly a primary goal of each L.P.C. and the members. Not only was this stated in interviews, but there were numerous examples of wage cuts, wage deferrals, voluntary labour and foregoing of bonuses in order to better meet loan repayments. Throughout the ten years and in all 23 L.P.C.s, loan repayments had been consistently met and even sometimes brought forward.

The strong motivation evoked by land recovery may have implications for the future. On the one hand, when loan repayments are complete, the members achieve their most valued goal, whereas communal farming goals may not be strong enough to evoke the same commitment to work and financial discipline.

On the other hand, the fact that L.P.C.s can display hard work and financial discipline in the pursuit of land recovery can engender group solidarity, and when good results are achieved from these efforts the members can develop 'expectations' that other goals can also be achieved; the L.P.C.s then have 'valence' for their members as and when other goals, such as employment and incomes, become more important.<sup>3</sup>

## Communal Farming Goals: Employment, Incomes, Social Projects

The goal of employment tended to be higher amongst the younger men. For the older men, many expressed it as a goal for the benefit of their adult sons and for their children in the future. A few 'leaders' expressed the view that only by creating regular rewarding jobs in the L.P.C.s would the young people stay in the rural communities.

This was reinforced by the statements of younger men. Levels of formal education are low in the Solomons, and particularly amongst the members of L.P.C.s. These members could not expect to compete for the few jobs in the towns and therefore saw the L.P.C.s as a way to create their own jobs. In fact, the L.P.C.s were growing and creating more work opportunities than before.

Motivation by cash income appeared to be a complex matter, but was generally seen as a secondary objective compared with land recovery and employment.

Attitudes to the payment of cash bonuses were also discussed. It was found that while there was a keen demand for bonuses when a high surplus existed, members would easily forego bonus if money was short. Also, most of the L.P.C.s studied had decided to give priority to early repayment of loans rather than bonuses.

Guguha L.P.C. was famous for, among other things, spending S1 \$19,000 on building a school for its community. This had prompted among its members further goals for social projects such as a clinic and piped water supplies. Tetepare L.P.C. had similar stated goals, important due to its isolation. However, in other L.P.C.s social projects were either not considered at all, or were vaguely thought possible a long time in the future.

Hence, the conclusion on goals and motivation is that land recovery was the primary and dominant goal to which other demands were often subordinated. However, if this was too singularly pursued then motivation would disappear once the loan was repaid. On the other hand, the success achieved in meeting this goal could develop concrete expectations that other goals could be similarly achieved, and goals of employment and future income were developing in most L.P.C.s studied. The more immediate motivation of cash income may be weaker in contrast to more future-orientated goals.

#### Management Development

The success claimed for the L.P.C.s was largely based on the actual recoveries of land and the agricultural developments thereon. The study found these to be very significant in many cases, but it also found a lack of management development in terms of the capacity of the internal management to run their own affairs without heavy dependence on L.U.D. and co-operative officers.

Management development involves more than training in management; systems must evolve that promote both the ability and confidence of managers. These may involve information systems and assistance relations that are complementary to training and recruitment.

The persons who occupy the positions of responsibility in L.P.C.s rarely have much formal education beyond primary school, and perhaps one or two years' secondary schooling. Many of the 'managers' have some agricultural training and/or experience with mission farms, the agriculture department or on private plantations. The secretaries have rarely received training, apart from on-the-job training in book-keeping from co-operative officers.

Despite this, the standards of agricultural and personnel management were reasonably high in most cases. One of the strengths of the L.P.C.s is that many of the agricultural skills needed are already held and known by Solomon Islanders. In addition, they have shown themselves quick to adopt better farming practices.

Personnel management was well understood, and with a well-motivated workforce was not difficult. One problem in a number of L.P.C.s was poor timekeeping. However, committees usually had ways of dealing with the problem which had a periodic nature.

The real management problems were in the areas of finance and overall direction. Hence the nature of systems was complementary to lack of training in perpetuating the problems, and therefore management development should involve action on both fronts. The essential problem was that the internal management lacked the knowledge and confidence to take financial and general business decisions and for decisions requiring forecasts of future cash flows.

### Future Prospects

The L.P.C. model usually exhibits the following strengths and weaknesses during its life.

#### STRENGTHS

A proven vehicle for the recovery of alienated land.  
Strong goals for land recovery promote fast and consistent loan repayments.

#### WEAKNESSES

Membership includes people with no communal farming goals, and who may cause arguments over land after loan repayment.

## STRENGTHS

## WEAKNESSES

A proven vehicle for the creation of rural employment, particularly among young people with little education.

Have shown they can develop cocoa and cattle to strengthen earnings base.

Existing coconut trees provide initial earnings for new co-operatives.

Good access to technical assistance for improved farming methods.

Copra production uses widely available skills.

Copra price unstable and relatively low.

Relative geographical isolation makes communications difficult.

Present financial systems do not yield information for management.

Low education of internal management.

Lack of previous management development means lack of confidence and high dependence on external direction and guidance.

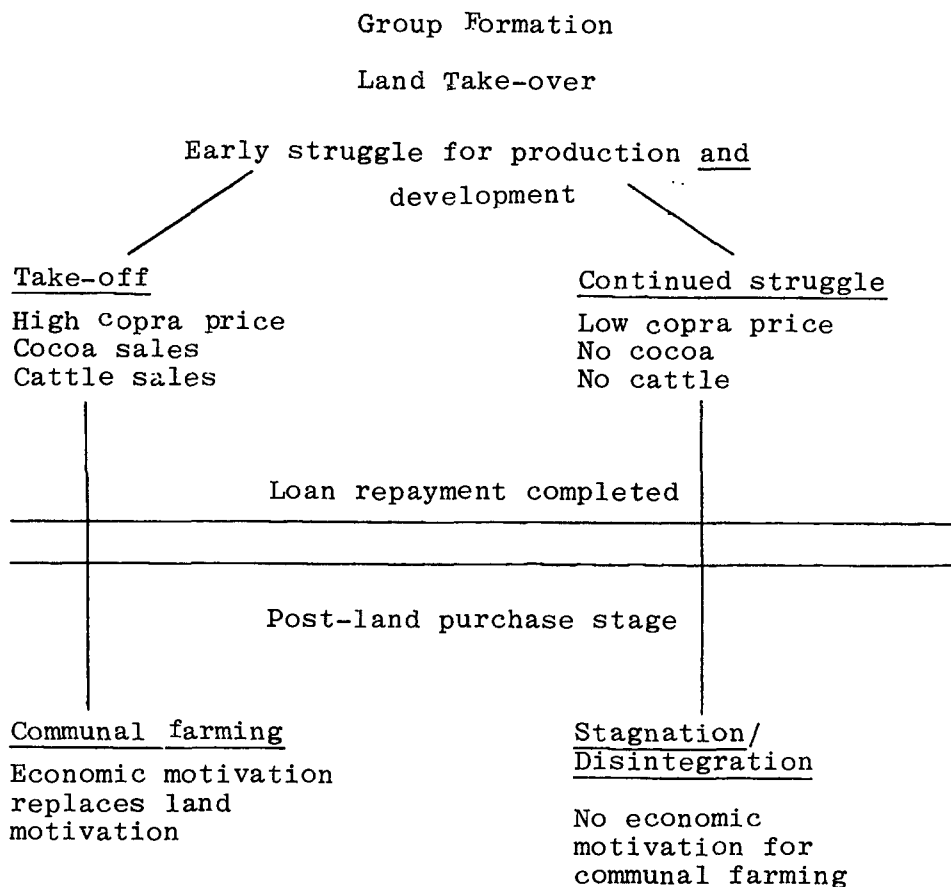
The strengths outlined above will probably continue to make L.P.C.s attractive to both members and government as being able to satisfy expectations. However, the long-term prospects for the L.P.C.s will require action to offset the identified weaknesses. The action can be summarised as: -

- Membership - legal ways and means be sought to satisfy minority demands for individual land units without damaging viability of communal farms.
- Copra price - diversification into cocoa and cattle production.
- Isolation - possibly a federal association of L.P.C.s with a central agency function.
- Financial systems - urgent review and development of information systems.

- Low education - training courses on technical, business and role education.
- Lack of management development - co-ordinated and systematic programme designed and implemented.

Figure 1.

Life Cycle Prospects of L.P.C.s



The concept of organisation life-cycle<sup>4</sup> may be proposed for L.P.C.s. Figure 1 shows how the future prospects of an L.P.C. may be determined by its success in generating sufficiently high economic motivation to replace motivation from land recovery, and to do so before loan repayments are completed.

Following land takeover, L.P.C.s will have a relative struggle. Trees are aging, much brushing may be required, production levels are low; development of coconut and cocoa plantings will take some years before producing. Maintaining production, development and loan repayments will leave little money for members' wages, since L.P.C.s tend to be under-financed. The motivation will be largely land recovery and financial disciplines will develop in order to meet loan repayments.

However a well-managed and diversified plantation can reach a take-off stage after perhaps five or six years when cocoa and coconut plantings will be established. If they are lucky, the copra price will also be high. Cash earnings and other benefits will be much higher and will engender higher economic motivation, expectations will have been achieved and the L.P.C. is a success for the members.

On completing the loan repayments, and entering the post-land purchase stage, high economic motivation can replace land motivation, and goals are transferred from essentially a land-purchase co-operative to a land farming co-operative.

However, there may be two alternatives: -

Firstly, due to poor management and lack of diversification, the struggle continues and when the loan is repaid, there is little or no economic motivation and the plantation stagnates.

Secondly, the time taken to reach the take-off stage is relatively short compared with the possible loan repayment time. Hence, an L.P.C. may be working well towards the take-off, but acceleration of loan repayments means the loan is repaid before the economic benefits are realised. Economic goals are not current but lie in the future, immediate motivation is low and the absence of land recovery goals may mean stagnation.



Conclusions from the life-cycle analysis are:

- 1) There are dangers in accelerated loan repayments if they are completed before a take-off in earnings. This may require careful consideration, on an individual L.P.C. basis, of a mixture of purchase loans, development loans (which will also reduce under-financing) and grantings of perpetual estates, assisted by appropriate grace periods and development covenants;
- 2) The need to identify the take-off stage in development plans, to explain the requirements and implications to the members, and to monitor progress towards the take-off;
- 3) Special external (L.U.D.) attention to L.P.C.s which have potential for take-off in the near future, but who for other reasons are not progressing.

## CONCLUSIONS

Final conclusions on the prospects for Land Purchase Co-operatives contain many possibilities. As a development model, they contain a number of strengths which may make them attractive to others, both in the Solomon Islands and elsewhere. Solutions can be proposed to reduce their weaknesses, and long-term prospects require urgent attention to management development. Considering motivation, employment goals for communal farming are relatively strong, and as L.P.C.s reach take-off stages, economic motivation should grow. However, timing is important as the life-cycle analysis shows.

The Guguha L.P.C. is often called the 'showpiece' co-operative. It has had some advantages, but has also come through its early struggles largely by its own efforts. As a development model within the group of L.P.C.s, it is perhaps the best example for demonstrating what can be achieved. This idea of what can be done may have a big part to play in their prospects. Expectations have been achieved in enough cases to have positive demonstration effects for goals and expectation to grow together.

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THE RECENT DEVELOPMENT OF  
AGRICULTURAL CO-OPERATION IN TAIWAN

by

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Co-operative Organisations are Necessary for Taiwan's  
Agricultural Industry

Based upon modern economic principles, any industry should be selected and carried on following the principle of division of labour and correlation of functions; and also the operative scale of the business should be able to expand as much as possible. For any business operation or management, in order to be successful and profitable, the producer should seek every way to increase the production efficiency of all the factors of production such as land, labour, machines and all natural resources. The principal ways of raising production efficiency are 1) the division of labour and correlation of functions; 2) enlarging the scale of production; and 3) enforcing educational training of the producers.

In these modern days of the international exchange economy the old domestic and self-sufficiency economy throughout the rural areas has been completely transformed to a market and money economy, or the 'encyclopaedic and many-branched type of production has largely become a specialised type. The basic business in the agricultural industry is farming which depends largely upon the supply and utilisation of natural resources, such as land, sunshine, temperature, rain, and the productive force in soil and plant bodies. All these main agricultural resources are widely scattered regionally throughout the rural area. These separated situations are made by nature: no human force could make any change. So that most of the farmers must follow the natural distribution of their productive resources, and each of them settles his farm family beside his farming land. They live and work together, with the result that all become small

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\* National Taiwan University.

production units, and can in no way extend their farming to a large-scale system and so raise the productive efficiency. Thus all become weak and poor producers.

The farmers in Taiwan are relatively more weak and poor, mainly because their family farms are mostly too small in size. This trouble is basically caused by the non-conformity of the man-land ratio in the Taiwan region, i.e. the population density per unit area of cultivated land is rather too high. The whole area of Taiwan is about 36,000 square kilometres or 13,900 square miles, within which over two-thirds are high mountain and hill lands covered by forests and hard stones, while the cultivable farming land on the plains are only about one million hectares. Now the total population is over 18 million, or over 500 persons per square km. There are about 850 thousand family farms with a total farming land of less than 900 thousand hectares, or an average of about one hectare per family farm. But nearly one half of those small farms each possesses cultivated land of less than 0.5 hectare. So that they are particularly weak and poor, unable to carry on any kind of the agricultural business efficiently and economically. In these times of exchange economy, the specialisation of farm cultivation, processing and marketing of farm products, purchasing of production resources, and financial supports for all business development are very necessary for establishing an up-to-date agricultural industry. But these small farm-owners are mostly poor, with no scientific knowledge or technical training. Without co-operation associations with their rural neighbours they are unable to work on the farm business successfully and profitably for building a developing agricultural industry.

### The Function of Agricultural Co-operatives

Based upon the definition, "a co-operative society is an aggregate of economic units, acquisitive units (enterprises) or spending units (households) to do services for the benefits of the member units"\* , we know clearly that a co-operative enterprise is an

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\* Ivan V. Emelianoff: *Economic Theory of Co-operation*, p. 105.

aggregate of small and weak economic units of production or consumption which form a relatively large business organisation for contributing services to its partner members. The ownership of the co-operative organisation belongs to the people who use its services, the democratic control of which rests with all the members, and the gains of profits of which are distributed to the members in proportion to the use made of its services. These associations are urgently needed for aggregating all the small family farms in Taiwan to become large-scale co-operative farms, and combining many scattered agriculture processing, marketing and purchasing units into large centralised agricultural manufacturing and trading organisations. Such an alternative could change Taiwan's agriculture from a simple and weak primary industry to a combination of primary, secondary and tertiary industries. This is clearly pushing the agricultural business to progress along the developing stages.

#### The Development of Agricultural Co-operation in Taiwan

As mentioned above, the division of labour, co-operative working for aggregating different small economic units to enlarge the production scale and increase operation efficiency are very necessary for improving economic development and raising the living standards of co-operative members. So that all modern developing countries are most eager to organise co-operative associations, particularly for agricultural co-operatives. According to recent international statistics on co-operation, in 1980 there were about 350 thousand co-operative societies in the world, of which over 60 percent were agricultural co-operatives.

Agricultural co-operation in Taiwan was initiated and has been developing over about eighty years. Since the beginning of the present century government officials and business leaders in the Republic of China recognised the importance of co-operative organisation of small business units for enlarging the scale of organisations and raising the labour efficiency. They directed some trading business men to organise quite a good number of co-operative credit societies and a few farmers to form some agricultural

production societies for processing and marketing farm products. Those co-operatives were mostly working in urban areas, rather than in rural districts. There followed many changes in the forms of organisation, particularly among agricultural co-operative societies, where some amalgamated with farmers' associations, only after a short period to separate again. Such an uncertainty of organisation rendered many difficulties in the development process of agricultural co-operatives. About these changes of Taiwan's agricultural co-operatives I have made a full description in an article published in the *Year Book* of 1958. But since the sixties agricultural co-operation in this country has been gradually purified and developed into co-operative associations serving simply for the farming business people, not for the profit-seeking commercialised men.

Since the beginning of the 1960s our central government officials together with leaders in the provincial agricultural department recognised the importance of agricultural co-operative associations in developing a structure upon which to build Taiwan's agriculture into a modern industry. Based upon the policy of economic development and rise in national income, all the government authorities pushed two sectional stages of land reform: first enforcing land tenure reform, then land use reform, and at the same time directed the farmers to organise different kinds of co-operative associations for enlarging the scale of business operation units in order to increase their working efficiency. Agriculture has long been a basic primary industry in Taiwan. Co-operative farming and marketing have efficiently enforced the development of this primary industry which, when developed and profitable, encouraged the secondary and tertiary industries to develop more rapidly. Thus, the agricultural co-operative business has contributed a quite valuable constructive force for building national basic industries as well as increasing the national income and raising the common welfare for all the people. Due to these valuable contributions, many businessmen are encouraged to organise co-operative associations, particularly agricultural co-operatives. Most

farmers are eager to work co-operatively with their near-by small farming units. They understand the well-known maxim: "Better Farming, Better Business, and Better Living." This actually successful co-operative work has been influential in the recent improvement and development of Taiwan's agricultural industry.

The different agricultural co-operative associations in Taiwan may be classified in three groups as follows:

1. Agricultural production co-operatives, including co-operative farms, co-operative processing and warehousing of farm products, and co-operative purchasing associations for the supply of farm-utilised commodities.
2. Co-operative agricultural marketing societies for selling farm products to domestic and foreign markets.
3. Agricultural co-operative credit and financing societies.

The co-operative farms are quite different in forms of organisation and also variable in business operations. They never adopt the system of joint farming and centralised management like the collective farms in most communist countries. They only utilise the co-operative method to develop large scale working for some particular business, such as machine cultivation and harvest of farm crops. In addition to the cultivation of vegetable crops, most family farms nurse and feed livestock, and poultry, and some farms, due to location in particular areas, cultivate flower, sugar cane and fruit crops; river-side and hill farms produce and sell fish and forest products. They all follow the principle of specialisation in business operation to organise different co-operative associations for obtaining success and profit.

Each of the small family farms can only utilise a very narrow area of cultivable farm land. Because land has been limited by nature, no farmer can extend his farming business through the expansion of farm land. Their best way for expanding the farm business is the increase of some additional business,

such as the processing of farm products, including livestock and poultry raised, and others as listed above. During the recent years our government Organisations for the Reform of Taiwan's Agricultural Industry have invested very big amounts of capital to enforce the establishment of farmers' additional or subordinate businesses together with the co-operative associations for speeding up agricultural advancement and economic development.

For the conclusion of this article, I have listed the name and number of various agricultural co-operatives in Taiwan developed during the last twenty years.

Table 1

Taiwan's Population, Farm Families and Farm Area

Year	Total Population	Farm Family Population	Families	Cultivated Land Area (Ha)
1960	10,792,202	5,373,375	785,592	869,223
1965	12,628,348	5,738,503	847,242	889,568
1970	14,675,964	5,996,889	880,274	905,263
1975	16,149,702	5,563,354	867,547	917,111
1980	17,805,067	5,287,596	872,267	907,353
1982	18,457,923	4,876,340	813,819	890,830



Table 2

Agricultural Production Co-operative Organisations  
in Taiwan

	Co-operative Farms		Agricultural Production Co-operatives	
	Number of Farms	Membership	Number of Co-operatives	Membership
1950	169	18,579		
1960	175	23,245	102	14,287
1965	199	21,630	103	15,777
1970	166	20,097	95	15,810
1975	157	18,724	85	98,807
1980	158	16,828	89	93,414
1982	193	18,637	119	90,415

Table 3

Agricultural Marketing Co-operatives in Taiwan

Year	Total Agricultural Marketing Co-operatives				
	Societies	Membership	Year	Societies	Membership
1970	15	95,278	1978	10	99,396
1975	18	97,180	1980	11	100,638
1976	8	97,806	1982	13	99,021

Table 4

Special Agricultural Marketing Co-operatives

Name of Co-operatives	No. of Societies	Membership (recent 10 years average number)
Fresh Milk Marketing Co-operative	1	90
Vegetable Marketing Co-operative	2	265
Honey Marketing Co-operative	2	47
Poultry Marketing Co-operative	2	57
Fish Production and Marketing Co-operative	3	186
Fresh Fruit Marketing Co-operative	1	93,592

Among all the agricultural co-operative marketing societies, Taiwan Provincial Fruit Marketing Co-operative Association is the largest as well as the most important. It has exported every year large quantities of banana and oranges to Japan and some other near-by nations, and earned quite big amounts of foreign exchange capital - a valuable contribution to the development of Taiwan's agricultural industry.

## FINANCING FISHERY CO-OPERATIVES IN JAPAN

by

Dan Bryan Strombom

The fishing industry has credit needs that differ in character from other types of enterprises. These needs derive from the special nature of fisheries; it is the sole large-scale industry based on hunting and gathering. As such, there are risks associated with fisheries which are not faced by more 'modern' industries.

The success of a fishing enterprise depends largely on the dynamics of fish stocks as natural renewable resources. A production function for a fishery includes the biomass of the resource, its distribution, other seasonal attributes such as recruitment time and breeding season, interactions as predator, prey, or competitor with other species, and the amount and character of harvests by fishing fleets. Man has direct control over the latter factor (although the history of fisheries is replete with examples of depleted fish stocks resulting from our inability to come to agreements on limiting fishing effort). Thus, attempts to establish the quantity of product to be available - a basic feature of any business plan - must be approached as a problem in probability. Usually, the best one can hope for would be a fairly broad range of possible harvest levels for which it will be necessary to formulate a set of contingency business actions.

Other uncertainties characteristic of fisheries should also be mentioned. Those who are familiar with fishing operations would place near the top of the list the harsh and changeable marine environment. Once safely landed, fish remain a difficult commodity to work with as they are highly perishable. For this reason, handling, processing, and packaging must be carried out under relatively stringent time and

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technical constraints. The marketing of fish products is more complex and as equally dynamic as the harvesting sector of the industry; very specialised and up-to-date knowledge is required to assess sales potentials of fish products.

These risks and special technical features of fisheries are, of course, in addition to and colour more normal business problems. From the point of view of a credit supplier, the combination of risks, incomplete knowledge and, often, a lack of secure collateral for a loan makes the fishing industry an undesirable finance venture. Recognising this situation in an extremely important industry, the Japanese government and fishing industry have developed a system of fisheries finance in which co-operative programmes play a major role.

This paper describes the present system of finance for fisheries co-operatives in Japan. A discussion of the historical development of the finance system is included. Emphasis is placed on qualitative aspects, and quantitative description has been minimised purposely. In a concluding section, the strengths of the Japanese system of co-operative financing will be highlighted.

### Overview of Japanese Fisheries Financing

For fisheries co-operatives and those in the industry but outside the co-operative system there are five general means of finance: government-affiliated funds, co-operative system funds, bank funds, credit between enterprises, and private individuals and others.<sup>1</sup> Company bonds also exist, but bond issues by fishing companies are rare.

Government financing for fisheries organised at the national level comes from the Development Bank and the Agriculture, Forestry and Fisheries Finance Corporation. The former has responsibility for vessel construction solely for those very large enterprises involved in distant-water fisheries. There are 13 fisheries of this type, including whaling, the wide-ranging tuna fleets, and distant-water trawl fisheries. The Agriculture, Forestry, and Fisheries Finance Corporation (referred to below simply as the Finance Corporation) is much more important in terms of the breadth and amount of funding. Its purpose is

to provide long-term, low interest financing for fishing boat construction, fishing operations and other needs. The direction that such loans take is closely aligned with government policies for fisheries. In addition to these institutions, there are local self-governing bodies with their own individual systems for financing and interest subsidies.

Co-operative system funds come from a three-tiered organisation working largely, but not exclusively, with co-operatives. At the national level is the Agriculture, Forestry and Fisheries Central Bank (*Norinchukin* in Japanese, referred to below as the Central Bank) where savings of co-operatives from the three primary industries are gathered into one fund. The Central Bank also has been granted the privilege of issuing bonds to raise monies. Each prefecture in Japan has its own Credit Federation of Fishery Co-operative Associations (*Shingyoren* in Japanese, referred to below as the Prefectural Credit Federation). The third tier is composed of the local co-operatives. The Central Bank may lend to local co-operatives either directly or through the Prefectural Credit Federation. The Prefectural Credit Federations and the local co-operatives have their individual funds as well, and the amounts of these funds are significant.

Included in bank funds are those of city banks, local banks, mutual finance banks, and credit financiers. In general, the banks finance larger, more successful enterprises than do government funds of co-operative system funds. City banks work with the largest fishing companies, local banks with the most successful small- and medium-scale enterprises, and mutual finance banks and credit financiers are involved down to the level of medium-scale, less successful enterprises.

Credit between enterprises which work closely together in a fishery is an important source of short-term capital. Advances on the guarantee of future deliveries and other types of credit of this nature are prevalent in other industries as well, but the seasonal nature of most fisheries calls for a greater flexibility.

To complete this list of sources of credit for fisheries, one cannot forget personal loans from family members, friends or others. Unfortunately, very little is known about this form of credit, though it is sure to play a very significant role among small enterprises. Start-up capital for many now quite successful firms came from personal loans, and such loans often would be necessary in meeting personal and business financial obligations during any periods of no fishing.

Figure 1 shows the relative importance of government funds, co-operative system funds, and commercial banks as suppliers of loans to all fishing operations during the period 1965 to 1975. Details of the government funds and the system funds will be taken up in the following section; banking practices are less distinctive and will not be discussed. This will lead into the final section of this paper where the dynamics of the finance as a whole will be presented.

#### The Structure of Co-operative-Affiliated and Government Financing Institutions for Fisheries

Figure 2 sets out the major components of the two financing sources. First to be discussed is government financing.

Government Financing of Fisheries. The major part of loans to fisheries by government-managed institutions comes from the Finance Corporation. This institution was established in 1953 with the aim of making loans to farming, forestry, and fishery operations so as to accelerate projects considered essential productivity.

Operating and loan monies are contributed or borrowed from the government, but they originate from post office savings deposits, which is a major form of saving by the Japanese. There are other finance corporations working under this same system. Some of these, such as the Small- and Medium-Scale Enterprise Finance Corporation loan relatively small amounts to fisheries. The Marine Processing Facility Fund is financed jointly by three finance corporations.

It has already been mentioned that lending policies of the Finance Corporation are directed by government priorities. The Corporation's budget and a settlement

Figure 1.

Outstanding Balance of Loans to Fishing Operations  
by Lending Institutions, 1965-1975<sup>2</sup>

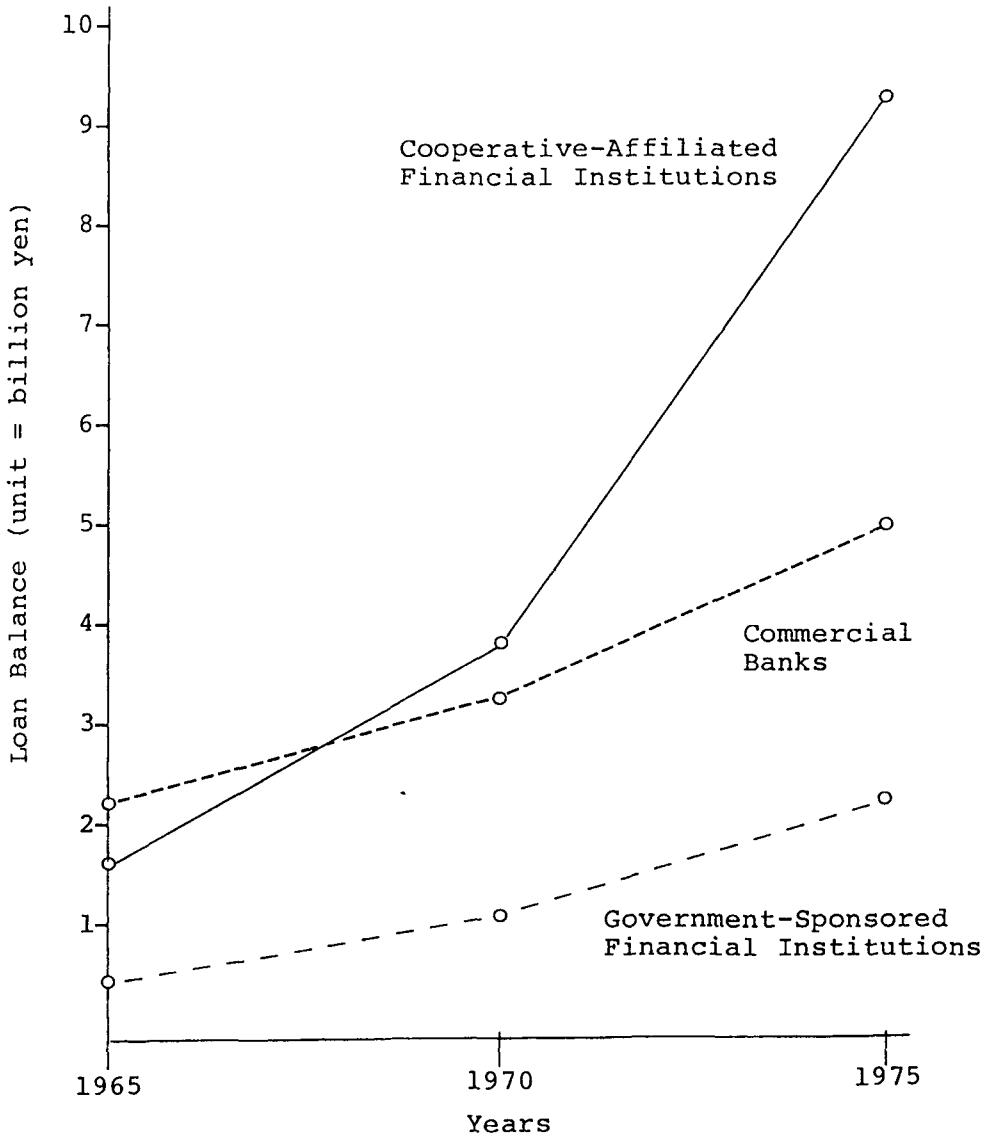


Table 1. Major Fisheries Funds of the Agriculture, Forestry & Fisheries Finance Corporation

Type of Fund	Interest Rate (%)	Repayment Period (Yrs)	Deferred Period (Yrs)	Lending Limit Amount (10,000 ₪) &	
Coastal Fisheries Structure Improvement Projects Promotion Fund: small coastal fishing boats, fishing gear aquaculture facilities, warehouses, fishing ground improvement.	Co-op 7.5  Other 3.5-6.5	Co-op 20  Other 15	   3	Individual 1,800  Corporate 3,600	   80
Fisheries Management Rebuilding and Adjustment Fund: fishing boats specified by law, fishing vessel instrument introduction; specified categories: distant-water bonito & tuna, offshore trawl, mid-sized squid jigging & others.	Co-op 7.5  Other 6.5	   15	   3	40,000 per boat  (Special Authorization 60,000)	   80
Adjustment: to reduce boats in overcapitalized fisheries.	5.0	15	5	--	80
Fishing Port Fund: supply & communication facilities, and such basic facilities as wharves & breakwaters.	4.5-6.5	20	3	--	80
Fishing Boat Fund: for small- & medium-scale enterprises	General 8.0 Disaster 6.05	15	3	40,000 per boat  (Special Authorization 60,000)	80
Joint-Use Facilities Fund: to restore, create or improve joint-use selling & processing facilities, fishing grounds, aquaculture facilities, refrigeration, & warehouses of co-ops.	General 8.0 Disaster 6.05	   20	   3	   --	   80
Marine Processing Fund: to adapt processing facilities to shifts in supply of raw material.	6.5	10	2	--	70



Table 1 (continued). Major Fisheries Funds of the Agriculture, Forestry & Fisheries Finance Corporation

Type of Fund	Interest Rate (%)	Repayment Period (Yrs)	Deferred Period (Yrs)	Lending Limit* Amount (10,000 ₪)	%
Mountain Villages or Deopulated Areas Management Improvement Fund: equipment to improve business viability, e.g. small boats, fishing gear, etc.	5.0 (3.0 during deferred period)	25	8	Individual 1,800 Corporate 3,600	80
Competent Ministers' Designated Facilities Fund: A) General: improve, introduce, or restore gear, aquaculture facilities, & marine product treatment or processing equipment.	7.5	15	3	inland aquaculture 800 marine aquaculture 1,200 boat equipment 1,000	80
B) Disaster: rehabilitate boats, warehouses, etc. damaged by natural disasters	6.05			facilities 200 boats 1,000	
C) Inland-water Promotion: inland culture facilities	5.0			Individual 2,400 Corporate 4,800	
Coastal Fisheries Management Stabilization Fund: to prevent dissolution of small enterprises' facilities due to disasters, illness, or inheritance.	General 5.0 Disaster 4.6 Debt Consolidation 5.0	20	3	General 60 Disaster 150 Debt Consolidation 500	--

\*Note: The lending limit is either the amount or the percent of project cost, whichever is lower.

of its accounts must receive Diet (Parliament) approval each year. Government control also extends to defining operating procedures and the terms and conditions of loans. A quarterly lending plan and a cash flow plan must also receive government approval. The accounting records of the Finance Corporation are audited by the government Board of Audit.<sup>4</sup>

In 1977 there were 27 individual funds. Monies have been available primarily for financing investments in facilities, while loans for working capital are limited. Nine of the major funds of the Finance Corporation are described in Table 1. As can be seen, the funds differ in interest rate, repayment period, and lending limit, as well as purpose. The most lenient terms and conditions are available for those facilities investments which are considered to have relatively major public utility or are most in line with government policies. Periods of deferment (during which only interest needs be paid) and repayment schedules are determined on the basis of the type of recipient business and the useful life of the facilities financed. If projects continue over several years, loans are made on a year-to-year basis, that is, approval is given only for monies necessary to complete that portion of the project scheduled for the upcoming year.

Eligibility requirements are defined by laws and regulations designed to achieve the government's objectives. Each fund has distinct requirements with respect to the scale of operation, the number of workers, annual income, ratio of income from primary industry, the kind of enterprise and its organisation.

The Finance Corporation's ability to service loans is limited. A major part of service functions are commissioned to other financial institutions (in 1976, 70% of loan monies were entrusted to commissioned institutions<sup>6</sup>). Such institutions are given considerable discretion in administering loans. In return, they receive fee payments from the Finance Corporation. These fees are computed as a percentage of the amounts of loans given or collected. The commissioned institutions are liable to the Finance Corporation for the loans they make out of funds provided.

Technical services to evaluate the feasibility and advisability of proposed projects are requested of fisheries agencies and others in the prefectural governments. Such agencies will also report to the Finance Corporation on the progress and completion of financed projects. For these services, the prefectural governments are paid a fee.

Co-operative System Funds for Fisheries. Fisheries co-operatives in Japan evolved over more than 200 years from simple communal activities to the nationally integrated multipurpose system of today. Until this century, the typical concerns of pre-co-operative forms of fishermen associations were in administering the use of fishing grounds and, in some cases, organising village fish markets.

With the fisheries law enacted in 1901 and its amending in 1910, fishery co-operative associations began to gain strength and to take on new activities, such as supply functions, improving harbour facilities and member education.<sup>7</sup> During the world depression beginning in 1929, the Japanese government was moved to strengthen co-operatives further in response to increasing conflicts between fish wholesalers or dealers and the fishermen who were in debt. Obligations to deliver fish at below-market prices and buy supplies at unreasonably high prices were among the most common complaints. The growing ability of Japanese fisheries co-operatives to handle their own financial affairs can be seen in the increasing number of co-operatives engaged in fish marketing. In 1911, 180 of a total of 3,528 co-operatives (5.1%) engaged in marketing, 898 of 3,875 (23.2%) in 1930, and 1,594 of 3,774 (42.2%) in 1940.<sup>8</sup>

To assist the establishment of a co-operative system for financing, fishing rights of fishermen's associations were bought up by the Japanese government with payment in the form of fishery right bonds. These bonds were cashed during the early 1950s with the proceeds retained by the co-operative associations for use as necessary for association activities. The government also assisted fishery co-operatives by formulating a set of financial standards, by providing interest subsidies on loans to co-operatives, and by advising co-operative management on good business practices.

Commissions from marketing members' fish catches established the basis for investments and credit operations. Furthermore, as commissions charged by co-operatives were considerably below those that had been charged by fish dealers, fishermen's incomes improved and resulted savings could be deposited into co-operative accounts, adding to the funds available. In 1936, most co-operatives were charging commissions of 7.1%, compared to 30-40% charged by private dealers at the turn of the century. Over the year, commissions paid to co-operatives for marketing services have dropped further, varying from 3-6% at present.<sup>9</sup>

Proceeds from the sale of fish catches are automatically deposited in the members' account. That is, wholesalers pay the co-operative, the co-operative deducts its commission, and the remainder is credited to the member's account. This procedure functions even when landings are made in ports other than the vessel's home port; the fishery co-operative to which a fisherman has delivered his catch will notify the co-operative where the fisherman is a member of the date and amount of his proceeds. Often in these cases an amount necessary to meet operational expenses (e.g., fuel, bait, food and crew's salary) will be given to the fisherman, then the balance will be forwarded to the home co-operative.

When a fisherman borrows money from the co-operative partial repayment is made at every fish landing. The co-operative credit department and the borrower negotiate the repayment terms, typically agreeing that 10-20% of the proceeds from each sale will be used as repayment. This obviates the necessity and expense of strict appraisals and collateral requirements.

The Prefectural Credit Federation adjusts the flow of funds among their member co-operatives, and similar adjustments for the prefectural tier are carried out by the Agriculture, Forestry, and Fisheries Central Bank. The Central Bank has access to savings of agricultural co-operatives as well as those of fisheries co-operatives, and from this common pool of financial resources, considerable sums can be made available.

Loans from the Central Bank can be extended to local public bodies and companies involved in agriculture, forestry, or fisheries which are not co-operatives. The Prefectural Credit Federation, however, is mandated to work only for the local co-operatives. Furthermore, the Prefectural Credit Federations were established by law as distinct institutions from other Prefectural Federations of Fishery Co-operatives (seven in all, with separate Federations for different types of insurance, education, and other functions) so that credit activities would not intermingle with other accounts that might show losses.

Being a non-governmental institution, the Central Bank cannot sustain interest rates that are much lower than those of commercial banks. This requirement would remove Central Bank loans from the means of many fishing enterprises, so the government has established an interest subsidy. Prefectural governments often join with this programme to bring interest rates down further.

As shown in Figure 2, the Central Bank presently maintains three sets of fishery funds: the Fishery Modernisation Fund, the Natural Disaster Fund, and several Management Stabilisation Funds. A complete picture of routes for interest subsidies and financing for the Fishery Modernisation Fund is presented in Figure 3. Terms and conditions for the Modernisation Fund, the Natural Disaster Fund, and the Fishery Management Maintenance and Stabilisation Fund are shown in Tables 2,3 and 4, respectively.

The following section will describe the inter-relationships between government financed funds and co-operative system funds. Included is a discussion of responses by these two main sources of financing for fishery co-operatives to the changing demands and situations in Japanese fisheries.

### Responses of the Japanese Finance Programmes to Dynamics in the Fishing Industry

This discussion begins with the years following the end of World War II and will proceed chronologically. As a result of the War, much of Japan's industrial

Table 2. Terms and conditions of the Fisheries Modernisation Fund

Type of Fund	Interest Rate (%)	Repayment Period (Yrs)	Deferred Period (Yrs)	Lending Limit (million Yen)
Fishing vessel	Less than 20 tons 6 20-70 tons 7	12	2	Fishermen *Vessels larger than 20 tons 120 *Aquaculturist (incorporated) 60
Storage or repair facilities	Fisherman 6 Co-op 7	Fisherman 12 Co-op 15	3	*Vessels less than 20 tons, Fishing companies, Fish processors, and Aquaculturist (unincorporated) 30
Equipment to improve or create fishing grounds	Fisherman 6 Co-op 7	Fisherman 7 Co-op 10	2	*Other than the above 6 *In cases approved by Minister of Agriculture, Forestry and Fisheries, Minister sets the amount
Fishing gear and aquaculture facilities	6	5	2	
Nursery stocking and training	6	5	2	
Broadcasting facilities	Co-op 7	20	3	* Cooperative 300
Facilities to improve or create fishing grounds	Fisherman 6 Co-op 7	Fisherman 12 Co-op 15	Fisherman 2 Co-op 3	*In cases approved by Minister of Agriculture, Forestry and Fisheries, Minister sets the amount

Table 3. Terms and conditions of the Natural Disaster Fund

Type of Fund	Interest Rate (%)	Repayment Period (Yrs)	Lending Limit (10,000 Yen)
Management Loans: for individuals who have suffered from natural disasters	3.0-5.05 Depending on Degree of Damage	General Disaster 3-6	General Disaster Unincorporated 160 -Hokkaido 280 -Fishing Gear 4,000 -Vessels or Facilities 400 Incorporated 1,600 -Vessels or Facilities 2,000
		Severe Disaster 4-7	Severe Disaster Unincorporated 200 -Hokkaido 320 -Fishing Gear 4,000 -Vessels or Facilities 480 Incorporated 1,600 -Vessels or Facilities 2,000
Project Loans: for cooperatives and federations which have suffered from natural disasters	6.05	3	General Disaster Cooperative 2,000 Federation 4,000 Severe Disaster Cooperative 4,000 Federation 6,000

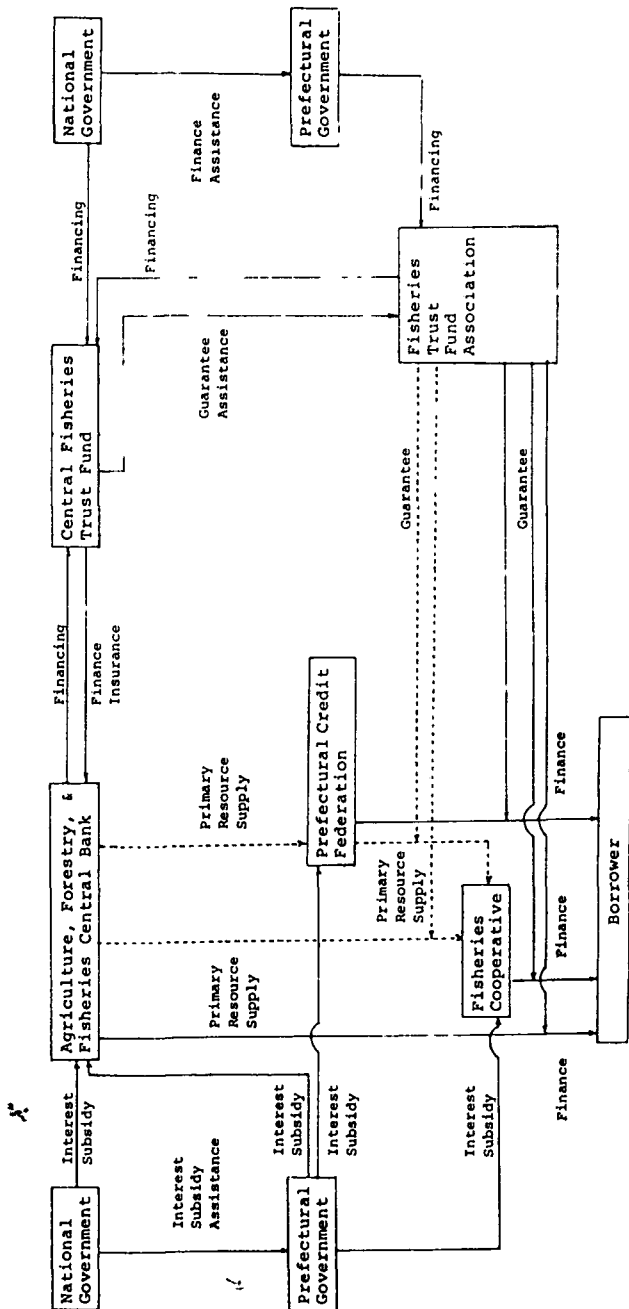
Table 4. Terms and conditions of the Fishery Management Maintenance and Stabilisation Fund

Type of Fund	Interest Rate (%)	Repayment Period (Yrs)	Lending Limit (10,000 Yen)
Individuals or corporations suffering long-term business losses or experiencing severe debt in -Distant-water trawl fisheries -Mother ship trawl fisheries -Tuna fisheries	6.5	7 (Deferred Period 2)	Vessel Fisheries <u>Total Tonnage</u> <u>Limit</u> less than 30 tons 25,000 30-50 tons 40,000 50-100 tons 70,000 100-200 tons 100,000 200-500 tons 150,000 over 500 tons 250,000
			Aquaculture 25,000 Set-net Fisheries Large-scale 50,000 Small-scale 25,000
Individuals or corporations suffering long-term business losses or experiencing severe debt in -Western trawl fisheries -Tuna fisheries based in Hokkaido	5.0		
Small- and medium-scale fishermen other than specified above			

Liabilities Targeted by this Fund

- a) Loan liabilities in arrears
- b) Unpaid wages and severance allowances
- c) Fisheries related guarantee debts or related debts due to insolvency
- d) Liabilities to prefectural system funds for emergency loans
- e) Other special debts

Figure 3. Routes for financing, interest subsidies, and loan guarantees for the Fishery Modernisation Fund





strength was lost, and fisheries suffered more than many other industries because of the strategic importance of ports. The defeat also brought a genuine shift in national philosophy, in which traditional institutions and methods were rigorously questioned and reformed. Thus, the present-day system for financing fishery co-operatives has been largely built up in only the last four decades.

One of the most pressing problems for Japan in rebuilding her economy was to overcome the critical lack of food. Productive capacity and distribution channels had been severely disrupted, and the system was strained even further by the large numbers of soldiers returning from overseas. Food products from fishing operations naturally were expected to make major contributions to this effort because of the traditional dependence by the Japanese on fish and the availability of large quantities of many species in the surrounding waters.

The first years were very difficult and there was no alternative to financing the development of fisheries except government assistance. The structure for co-operative system financing was established as early as 1949, but it would take a number of years for resources to build up and administration of loans to run smoothly. Circumstances required that early priorities for financing be limited to reconstructing infrastructure facilities, i.e. ports and landing places, roads and railways, and market places. Initially, few financial resources could be made available to fishermen.

As the general economy continued to improve, more monies became available and a greater diversity of needs could be addressed. One of the most important routes of capital circulation was: Savings from Agriculture ---> Central Bank Funds ---> Fisheries Co-operatives. This pattern prevailed from the early 1950s to the mid-1960s. With savings from agriculture and fisheries aggregated in the Central Bank, local co-operatives were no longer restricted by their own capital strength as a basis for loans.

Within the first decade of the post-war years, the horizons of the fishing industry began to expand to more and more distant fishing grounds, assisted by

government programmes under the motto: "From the coast to offshore, from offshore to the far seas".<sup>14</sup> Expansion into the North Pacific was followed shortly by fleets steaming to the West Central Pacific, and gradually into all the oceans of the globe. A period of greatly accelerated growth in fisheries production began in the mid-1950s and continued into the mid-1970s. Starting around 1960 another production drive began, that of aquaculture (the 'farming' of marine plants and animals), and also continued to expand over the following fifteen years.

These efforts necessitated very large, long-term investments in vessel construction, development of new harvesting and processing technologies, and aquaculture facilities. For the largest, most successful fishery enterprises (those involved in distant-water ventures), commercial banks played a relatively strong role as capital suppliers. The general Japanese economy was accelerating forcefully, expanding lending capabilities to the point that banks became willing to invest in fisheries. Also, larger fishing companies turned increasingly to deposit accounts in banks, thereby establishing close business relationships and building sound reputations with bank loans officers.

Throughout this period, lending expanded also by the Finance Corporation and the co-operative system funds. Competition for lending opportunities between all three types of institutions shaped the types of loans available as well as bringing about very progressive loan policies. In the total amount of loans, commercial banks led the field, with co-operative system funds a close second, and the Finance Corporation funds trailing at a considerable distance. The strength of the commercial bank's relationships with the most successful fishing companies forced the Finance Corporation and the Central Bank to diversify and concentrate on more successful small- and mid-sized enterprises.

Within the co-operative finance system, several trends should be noted. During the first half of the expansion of Japanese fisheries, the Central Bank

dominated the prefectural tier in loans to local co-operatives. The flow of capital was nearly unidirectional from the Central Bank outward; this required a heavy reliance on savings from agriculture. As fishery enterprises continued to bring in substantial returns, deposits accumulated in the Prefectural Credit Federations, and loans from these institutions gradually grew. By 1967, financing by the prefectural federations equalled that of the Central Bank, and then proceeded to become the major financier of local co-operatives by 1971.<sup>15</sup> This was true of both short- and long-term loans. In this way, finance programs for fisheries became increasingly independent from savings of agriculture.

An examination of the details of capital circulation between the Prefectural Credit Federation and the local co-operatives during the expansionary period, shows that the system cannot be regarded as of the classic 'mutual-finance' form. Rather, certain classes of fishing enterprises were consistent capital suppliers while others were consistent capital borrowers. Smaller-scale enterprises (with vessels of less than five tons) emerged as the capital suppliers; medium- to large-scale enterprises (with vessels of over 30 tons) were the borrowers.<sup>16</sup> This unbalanced capital circulation pattern required considerable adjustment on the part of the Prefectural Credit Federations and the Central Bank.

The 1970s brought an entirely new set of conditions to the Japanese fishing industry. The rapid increase in petroleum prices beginning in 1973 affected business costs throughout the industry, from fishing gear to transportation to market. The distant-water operations suffered more than other types of fisheries, not only because of rising costs, but also because opportunities were becoming restricted. Most of the fish stocks on which the distant-water fleets had depended were reaching the limits of productivity and many were becoming depleted from overfishing. Moreover, this contributed to a move by coastal states to greatly extend their jurisdiction over fishery and other marine resources. Where coastal states had once claimed jurisdiction over a narrow belt of coastal waters (typically three to twelve

miles from shore), the new regime called for a 200-mile limit, bringing under coastal state control a great majority of the world's fishable marine stocks. Access to these fish for Japanese distant-water fleets became either prohibited or negotiated at significantly higher costs in the form of licenses, fees, and restrictions on operations.

These changes necessitated a reformulation of Japanese fishing policy. Emphasis shifted to increasing fishery production within Japan's own extended jurisdiction zone. Financing by the government and the co-operative system responded by establishing new loan funds and new finance distribution channels.

The co-operative finance system was in a stronger position to redirect their efforts than the Finance Corporation. The general economy turned stagnant and government deficits began to grow rapidly, so the budget of the Finance Corporation could not keep up with the demand for funds. For the co-operative finance institutions, the outlook was much more positive because fishermen were turning to depositing their savings into the co-operative system as other investment opportunities became relatively scarce and insecure. And as the co-operative system had already established avenues of communications with the small- and medium-scale fishing enterprises that formed the core of the new policy direction, co-operative financing could move quite rapidly to their assistance.

Prefectural Credit Federations solidified their position relative to the Central Bank because they could deal more effectively at the level of local, modest loans. Increasingly, therefore, monies accumulated in the Prefectural Credit Federations and were not passed upward. The Federations broadened their influence by becoming lead institutions for the Fisheries Modernisation Fund which was introduced in 1969. The Central Bank turned toward financing for temporarily fast-growing fisheries, such as the Japan Sea squid jigging fishery. Specialised co-operatives and the largest generalised fish co-operatives also have continued to work directly with the Central Bank.

The return of more difficult economic conditions and limits on improving Japan's coastal fisheries have resulted in a generally stagnant fishing industry. This can be seen in the use rate of the different loan funds. Since the 1980-1981 fiscal year, funds for facility development (the Finance Corporation Fund and the Co-operative System Fisheries Modernisation Fund) have only been used at rates of about 60-70%. The most active funds have been those emergency funds directed at alleviating some of the stress of a stagnant industry, notably the Fisheries Management Stability and Maintenance Fund, started in 1976, and the Special Countermeasure Fund for Fuel Used in Fisheries, instituted in 1974.

### Conclusions

The preceding descriptions and discussion of financing fisheries co-operatives in Japan portray a set of well-organised and firmly established institutions and constructive programs. The functioning of these finance means are to a large extent inseparable from the economic and social context of Japan in the post-war years. It cannot be presumed that details of the Japanese approach would be transferable to other countries and other contexts. Nevertheless, there are certain fundamental characteristics which may be considered essential or at least instructive for any system of fisheries co-operative finance.

Chief among these characteristics is the refinement of financing programmes to deal with the special needs and technicalities of fisheries. Japanese programmes are highly specialised in their terms and conditions. As has been shown, loan monies are divided into separate funds taking into account the size of the operation, geographical location, whether the enterprise is engaged in harvesting, aquaculture, or processing, and other factors. This level of specificity allows for accurate accounting of and responsiveness to the needs of the fisheries co-operatives, in contrast to unwieldy, slow responses that would plague more generalised funds.

For this same reason, there are clear benefits to the Japanese approach of separating the credit function from others performed by co-operatives. It is too

easy to continue programmes in need of reform when there is access to more secure financial resources. This cannot be an absolute rule, however, as co-operatives are expected to play a role in ameliorating more than just limited business problems of members. Some necessary co-operative activities, such as education, cannot be expected to be self-sufficient. Still, the Japanese argue that such transfers should come from sources other than credit programmes because of the necessity of maintaining member confidence in the security of their savings.

Inevitably, there will be periods of time when fishing areas will suffer economically and needs could easily exhaust local supplies of credit. Many fisheries have undergone abrupt swings in productivity in response to ecologically-based or man-induced shifts in fish resource abundance or changes in the market place. The Japanese co-operative system for financing is flexible in this regard by means of the three-tiered organisation; local deficits can be met by the prefectural and national levels. The important contribution of savings from agriculture to the growth of fisheries finance should be remembered also. There would be considerable member dissatisfaction, of course, if the perception became widespread that hard-won savings were endlessly used for failing operations elsewhere. Transfers of funds must be in parallel with substantive efforts to reform or adjust. The national perspective of the Japanese people contributes to acceptance of transfers and there is a realistic view that assistance to others will be returned when needed later.

Finally, the Japanese government has assisted the financing of fisheries co-operatives both in providing monies and technical support to the establishment of the co-operative system and its finance programme and through the added resources of government-affiliated finance institutions and interest subsidies. The co-operative system in Japan could not have achieved its present status without this assistance. There has been competition between co-operative system financing and government financing. To some degree the two sets of programmes have had redundant purposes, yet this has been recognised and complementarity has been sought.

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# THE ROLE OF CO-OPERATIVES IN BRITISH TROUT FARMING

by

Susan A. Shaw\*

## Introduction

In September 1981 the Central Council for Agricultural and Horticultural Co-operation in conjunction with the National Farmers Unions of Great Britain commissioned the following study from the University of Stirling Industrial Projects Service:

"An investigation of trends in the production, distribution and consumption of salmon and trout in the United Kingdom with recommendations for a future marketing structure for the industry as a whole!"<sup>1</sup>

The commissioning of the study reflected a continuing concern shown by members of the industry with the problems of marketing their product. This paper draws on those findings of the study, submitted in December 1981, which relate to the formation of co-operative groups of small and medium sized producers for the joint marketing of their production. The paper is divided into three main sections: the first provides a brief introduction to the main features of the British trout farming industry; the second considers the different markets for British trout and the requirements that supplying these markets impose on producers. The third considers the contribution which co-operative forms of organisation can make to meeting these requirements.

## The British Trout Industry

The development of the British trout industry has in one sense been a considerable success story. Production of rainbow trout for the table in the United Kingdom grew from an estimated 1,000 tonnes in 1974 to 5,500 tonnes in 1980. This has not only represented increasing consumption of trout in the United Kingdom, but also the successful substitution of home production for imports which fell from 1,700 tonnes in 1974 to 746 tonnes in 1980.

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Much of this production comes from small and medium sized farms. M.R. Lewis carried out a study of the structure of trout farming in Great Britain in 1979. Of the 77% or 144 farms who replied, the largest 7 fish farms accounted for 40% of the total output. There were however 96 or 66% of farms who produced less than 20 tonnes per annum and 125 farms produced less than 50 tonnes. A farm producing 20 tonnes has a turnover of about £30,000 and one of 100 tonnes a turnover of about £150,000 per annum. The latter probably employs 2 or 3 people.

Table 1  
Structure of Production of Rainbow Trout  
in Great Britain

<u>Annual</u> <u>Production</u> (tonnes)	<u>Number</u> <u>of Farms</u>	<u>Total Production</u> <u>Tonnes</u>	<u>% Total</u>
0 - 10	78	379	9
11 - 20	18	290	7
21 - 50	29	1,013	23
50 - 100	12	935	21
100+	7	1,798	40
Total	144	4,415	100

Source M.R. Lewis<sup>2</sup>

There are trout farms scattered all over the United Kingdom. There are for instance 57 farms in Scotland, 40 in the North of England, 30 in East Anglia and 60 in the South West of England and Wales. They operate a variety of different production systems and not surprisingly, given location, system and size differences, have differing levels of unit production costs. Although, as indicated, the production growth has been a success story, the trout industry has, in recent years, partly as a consequence of this production success, been experiencing a problem all too familiar in agricultural markets. While the increases in

production have been relatively easy to achieve, demand growth and new market creation have been more difficult to achieve at the same rate. The result has been that the only way in which these production increases have been absorbed by the market has been through falls in the real price of trout. All producers have been worried by the consequent fall in margins, but while the lowest cost (usually largest) producers are still receiving adequate returns on capital, for some of the other producers life has become very difficult.

The industry is an extremely competitive one. It is also an 'easy entry' one and there is a real possibility that future increases in demand will continue to be met by more than proportional increases in production, keeping the real price depressed. Therefore, only the efficient producers and marketers of the product will survive over the longer term.

It should further be noted that it is the small and medium sized producer, i.e. the producers under 100 tonnes, who have both the highest costs and lowest margins.

Table 2

Average Costs and Margins

<u>Size of Farm</u> (tonnes p.a.)	<u>Pence per Pound Weight</u>	
	<u>Costs</u>	<u>Margins*</u>
0 - 5	77.0	- 9.8
6 - 10	64.7	5.1
11 - 15	59.3	5.5
16 - 20	59.1	6.8
21 - 50	52.4	2.3
100+	37.8	13.8

Source M.R. Lewis op. cit.<sup>2</sup>

\* includes charge for unpaid labour, excludes direct management.

The pressure on these farms therefore to take action which will, it is hoped, enable them to operate more efficiently and profitably, is great.

It is in this context that members of the industry have in recent years been devoting more attention to improved product marketing in an attempt to improve the returns they receive. One of the further questions that has been raised by the small and medium sized producers is whether organisation into co-operative groupings in particular cases will help them in this process of improved product marketing.

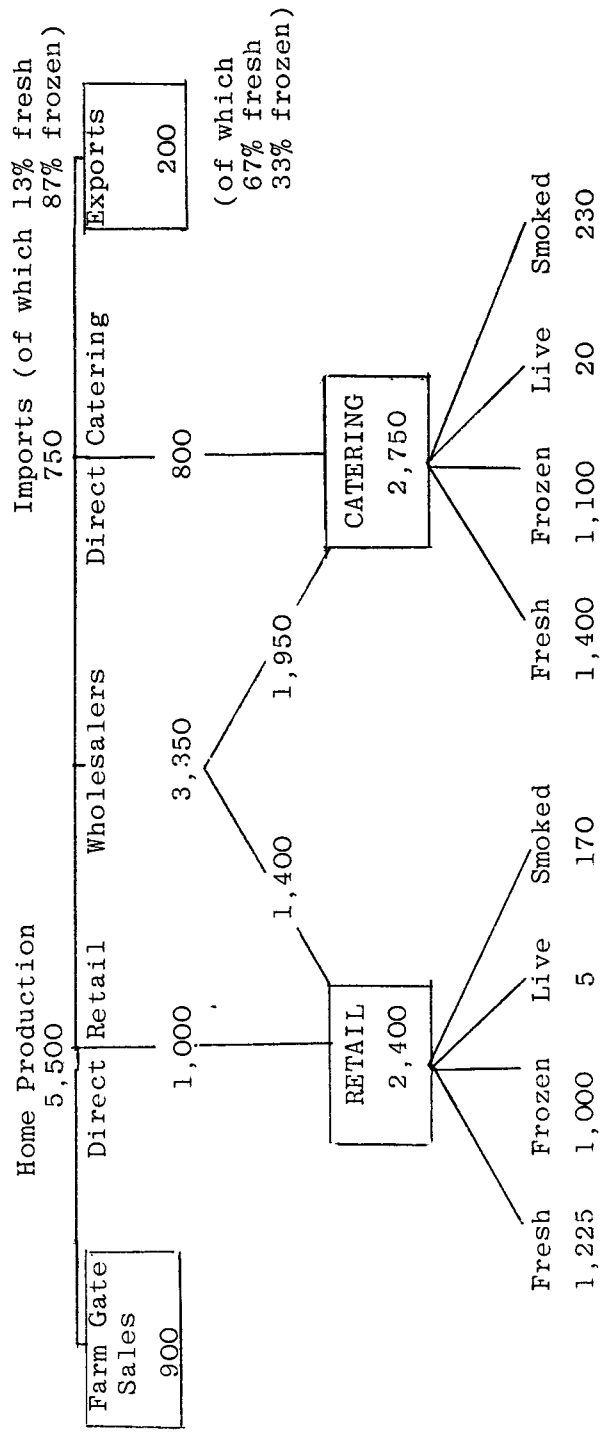
### Markets for British Trout and Their Requirements

Successful marketing can however rest only on an understanding and analysis of market needs. It is therefore appropriate, before turning to the role of co-operatives, to consider the marketing requirements to be met by such co-operatives. The structure of the British trout market is thus considered first in this section followed by an analysis of the marketing requirements to be met by producers.

As can be seen from Figure 1, the 5,500 tonnes of trout produced in 1980 found their way to the final consumer by a variety of routes and in a variety of product forms, ranging from sales of whole fresh trout direct to the final consumer at farm shops, to sales of frozen branded retail packs of trout by supermarket groups and freezer chains. Not only does the degree of processing vary but also the length of the distribution channel varies. Sales of 'wet' fish to wholesalers may pass through up to 3 intermediaries before reaching the final consumer in either the retail or catering sector. A further point of some importance is that there has been a tendency for sales to grow most rapidly in those outlets supplied by relatively 'short' distribution channels - for instance supermarkets and freezer chains - while sales through the traditional 'wet' fish wholesalers have in recent years shown only sluggish growth.

Thus in his search for strategies to ensure survival and profitability, the trout farmer is confronted by a variety of marketing alternatives in the product mix which he can offer and markets for which he can aim 1,3,4. This in turn implies that the

**Figure 1** Outlets for Table Trout in the United Kingdom (estimated)  
 (tonnes live weight equivalent)



trout farmer must decide on the functions which he wishes to perform to survive and be profitable. Table 3 represents the major alternatives which are likely to be involved. It is clearly an oversimplification of the actual number of choices and the issues which each option raises. It is hoped, however, that it does identify the main options.

Table 3

Marketing Strategies for Trout Farmers

	<u>Flexibility in volume and quality control</u>	<u>Marketing costs</u>	<u>Strategic strength</u>
1. Fresh sales to wholesalers	+++	+	+
2. Fresh sales to processors	++	+	+
3. Farm gate sales	+	+	++
4. Fresh sales to supermarkets	+	++	++
5. Frozen (processed) branded packs	+	+++	+++

The larger the number of pluses the higher the value with respect to the particular item. This table represents the various options as a type of trade off. As one moves from sales of fresh unprocessed fish to wholesalers<sup>1</sup>, to sales of branded packs of processed fish to bulk retail outlets<sup>5</sup>, the need to plan production carefully and the size of marketing costs rise but equally the strategic strength of the producer is seen as also rising. By this it is meant that the ability of the producer to protect himself through periods of instability in the industry increases as does the 'value added' to the product he is marketing. When the producer sells fresh fish to fish wholesalers<sup>1</sup> his marketing responsibilities cease. Often his fish is not even identifiable by his own name any further down the distribution channel. Of course the producer has to identify suitable wholesalers with whom to deal. Equally wholesalers

attempt to make demands on producers by ensuring that producers relate harvesting time to demand patterns and supply a product of appropriate quality. However, the fresh wholesale market basically absorbs all the trout offered to it. It is also therefore not surprising that this market offers the lowest prices. It is also the most unstable since it has to cope with considerable variation in supplies.

Sales of fish to processors (option 2) are less flexible in that processors typically require regular delivery of fish of homogenous size and quality. While the processor usually demands regular supply and is in turn able to offer the producer a relatively secure outlet, the producer himself has no marketing responsibilities or possibilities for adding value to his product.

Farm gate sales<sup>3</sup> are sales of trout directly to households or to catering outlets in a local area through a farm shop or van delivery system. Typically prices realised by the producer are significantly higher than through other outlets since intermediaries (wholesale and retail) are eliminated. Such systems are relatively cheap to establish (low marketing costs) but since the producer is now responsible for all aspects of the product mix received by the final consumer he has a responsibility to ensure that he plans production in relation to patterns of local demand. Of course if at the same time within that local area he builds a reputation for sales of high quality fish at competitive prices his strategic strength and protection from competition will also rise.

Bulk sales direct to supermarkets and similar outlets (option 4) require planning and stringent quality and packing standards. Marketing costs of negotiations with supermarkets and participation in promotional activities (usually price orientated) are also relatively high. On the other hand, since assurance of quality and reliability is important to such outlets, previous satisfactory performance increases probability of repeat business and with it strategic strength. Prices paid are higher than those offered by wholesalers. The desire for advance planning by such outlets also enables the producer to organise his production more effectively.

Finally, the trout farmer can himself go into processing by freezing or controlled atmosphere packaging (option 5). Planning requirements necessary to use expensive equipment efficiently now rise considerably so it is not an option which offers flexibility. Quality control requirements are also more onerous. Marketing costs rise because if these products are marketed under the producer's own brand name, the producer will bear the responsibility of marketing and developing the desired image for the product to the end of the distribution channel. In return he will of course be exercising more control over the way in which his product is marketed and because processing adds value to the product the potential for increasing profitability also exists.

Thus the producer faces the choice as to where on this spectrum he wishes to be. In the light of these major marketing alternatives the benefits of co-operative groupings can now be considered.

#### Co-operative Groupings in British Trout Farming

To be successful, a co-operative group has to offer the individual producer some benefits which they would not otherwise receive and which offset any costs incurred (including other options foregone) through membership of the co-operative. Typically such benefits are those which are achieved because the producer becomes part of a larger grouping and this larger grouping enables him to offset disadvantages of small size without loss of control.

The Stirling report concluded that there were potential benefits available through co-operation to small and medium sized producers and recommended that individual groups of farmers in particular areas should investigate these advantages in relation to their own particular situation. It also however concluded that these advantages may be difficult to achieve in some situations and also that the major benefits of co-operation were likely to be achieved where it enabled individual producers to move through the spectrum of options described above towards the processed fish/strategic strength options and away from fresh fish sales to wholesalers. Again however, whether these advantages can in practice be



achieved will depend on the particular characteristics of the group seeking to co-operate. We now turn to a more detailed examination of these findings.

As far as the first option of sales to fresh fish wholesalers and processors are concerned, the formation of co-operative groupings is really seen as a way of diversifying away from this route. As indicated earlier, this tends to be the outlet offering the lowest prices and the least stable prices. For many small producers acting alone however because their volumes are small and may be available for sale only infrequently, they may have no alternatives. They cannot trade with outlets buying more regularly and in bulk because they cannot meet volume and timing requirements (option 4). Further, because they deal with wholesalers irregularly and in small volumes, they do not get good terms from the wholesalers when they do deal with them. If these groups of producers however join together formally for the co-operative sale of their production, the possibility exists of offsetting these disadvantages.

Bargaining strength is increased and it may be possible to plan and allocate output among farms to meet customers' needs for continuous supply. The pooled resources of members will be available to tackle the obtaining of marketing information and to allocate a larger absolute volume of time to marketing activities. The possibility now exists to service the more demanding requirements of sales direct to large retail and catering outlets.

Two points should however be noted. First, unless the producers do wish to move away from sales to wholesalers and towards sales to other outlets, it is not clear that the advantages of co-operation are large, set against the loss of individual autonomy involved.

This is because the fresh fish wholesaler is already essentially performing the marketing function on behalf of the producer. There may be possibilities for producers for instance to combine transport to deliver to wholesalers but otherwise there is little for them to combine to do. It is however when the individual producer is dissatisfied with this lack

of control and seeks more marketing influence by moving out of this selling situation that he will then see benefits in co-operation.

The second point is related. It is not possible at this stage to be specific about the level and type of co-operation that will be appropriate for the producer seeking this additional marketing control. Much will depend, firstly on his geographical location, and secondly on the total volumes available for combined marketing. As far as geographical location is concerned, there are a number of producers who are in locations remote from other members of the industry, and while co-operation may appeal to them, the logistics of combination with others may be so difficult as to make them unattractive partners to others. These producers are likely to remain dependent on their own efforts in developing local sales and perhaps specialist forms of small volume processing (e.g. smoking) to market higher value added products. Failing this they are likely to continue to depend on sales through the traditional wholesale system.

As far as the volumes available for joint marketing from particular areas are concerned, this is likely to affect both the feasibility and form of co-operation. One benefit which might be sought in such a group is the ability to employ specialist marketing staff. Our 1981 calculations suggested however that this would be expensive for small co-operatives. Those calculations suggested that it would cost £16,500 or an extra 5p per lb. to cover all the direct and support costs of a marketing manager for an output of 150 tonnes, and £20,000 or 4p per lb. for 250 tonnes. It would require 1,000 tonnes to bring costs down to 1 or 2p per lb. Whether improved marketing will bring benefits sufficient to cover these costs at low volumes is not clear. Partly it depends on the perceived value of the associated time savings to individual members and partly on market opportunities which will vary regionally. This is however a large extra amount to recover in selling prices without any extra value added to the product through processing. If such specialist staff cannot be hired, then the individual member will have to evaluate whether the pattern of abilities among

potential members is such that they can usefully subdivide tasks among themselves or whether he is better to continue to operate alone.

Option 2 involves similar considerations. While the processor usually demands regular supply and is in turn able to offer the producer a relatively secure outlet, the producer himself has no marketing responsibilities or possibilities for adding value to his product.

Option 3 is farm gate sales. This is an attractive option. It combines control and the ability to plan with low marketing costs and high prices. It is also an option where probably co-operative groupings have relatively little to offer. For a producer already selling his output successfully in this way and who has already developed a distinct local identity and brand loyalty, there would be a lot to risk in foregoing this identity for group marketing.

He can already cope with and organise his sales within his local area; he has total control of his own product quality and marketing. However, this option, while attractive, may also be limited. The ability of a particular area to absorb trout through farm gate sales may be far less than the capacity of the trout farm to produce trout.

Thus for many trout farmers, while this is a profitable outlet, it can only take part of their production. This applies to many medium sized producers producing 20 - 100 tonnes per annum and was one of the reasons for the lower margins in this category (Table 2). They have expanded beyond the local demand but in seeking to sell elsewhere have insufficient extra volume to sell anywhere other than to the wholesale market. Thus this group may be particularly interested in any co-operative activities which enable them to tackle other markets such as those of option 4 and option 5.

Option 5 involves the trout farmer moving into trout processing. It combines the largest costs with the greatest control (strategic strength) and greatest potential for adding product value. Almost certainly, as already indicated, this is an option where there are considerable benefits associated with larger size. For processing by freezing for

instance, a small processing unit operates at significantly higher costs than a large one, so that there are significant scale economies to be achieved by combining together to operate a joint processing plant. The financing and economies of a marketing co-operative with processing facilities will vary with the precise circumstances of each operation. It is therefore only possible to give a broad indication of likely processing costs. However our end-1981 calculations suggested that minimum required selling prices for viability declined from 100p per lb. at 100 tonne throughput to 84p per lb. at 500 tonne throughput. At this time prices received from retailers and caterers averaged between 80p and 100p per lb.

Table 4  
Minimum Selling Prices to Recover Costs  
at Three Levels of Processing for Trout

	Pence per lb. 1981/82 <sup>a), b), c)</sup>		
	100 tonne	250 tonne	500 tonne
Gutted, frozen packed in 5lb poly bags	95	84	79
Gutted, frozen 2 fish packs for retail outlets	100	89	84

- a) Costs include a 15% interest charge on capital.
- b) Farm production costs are assumed to be 50p per lb.
- c) The effect of Central Council and Regional Development Grants is to reduce these prices by about 1p per lb. below these levels.

Source: Stirling Report.

The implication clearly is that it is not economic to operate small plants and that small-scale producers will have to offset this size disadvantage through co-operative groupings if they wish to attack the markets for processed trout. Plans to form one such co-operative are already underway. In Scotland

19 producers are involved in plans to set up a Scottish trout marketing co-operative handling at least 1,000 tonnes of fish a year and involving processing. This follows recent completion of a feasibility study into the co-operative idea.<sup>5</sup>

However, once again, the actual potential for such developments in the United Kingdom will depend on whether there are sufficient volumes of trout available in particular areas to operate large enough processing facilities to be competitive. Assuming that it needs at least 500 tonnes throughput per annum to establish a viable co-operative, in many other areas of the United Kingdom the combined output of uncommitted small and medium sized farms would not reach this level.

However in some areas, there may be other options which can be pursued for potential co-ops too small to establish their own facilities. Firstly it may be possible to get their production frozen by processors under contract and carry out their own subsequent marketing. Secondly, it may be possible to establish collaborative co-operative ventures with existing local processors. Clearly, in the case of this latter option such co-operation requires also the interest and the commitment of the processor. It must be noted that the Stirling report did find some existing processors reluctant to accept the loss of total control which this option involves. However, such link-ups could be mutually beneficial. For the producer it offers the possibility of production planning in an organised manner in line with the marketing needs of the processed product, and it also offers a role in marketing decision-taking further down the distribution chain. For the processor it offers the guarantee of greater security of supply, in turn aiding his processing and marketing planning. This is not an option available in all areas, but, once again, it is an option which may well be available to and worth investigation by some producers.

### Industry-Level Co-operation

This article has concentrated on developments in primary co-operatives in British trout farming, based on regional groupings of small and medium sized producers. It would however be a great mistake not

to mention also, albeit briefly, the steps taken towards co-operation for promotional activities at an all-industry level. The British Trout Association was formed earlier in 1983 and has applied for registration as a co-operative.<sup>6</sup> The founders of the Association hope that a large proportion of the industry will participate including the larger producers. The intention is to spend funds raised through levies on members to finance generic promotional activities, with the objective of helping to stimulate the overall demand for trout. Clearly if successful this has the potential to benefit all members. Clearly also demonstration of the benefits of co-operation at industry-level may act to stimulate further interest in investigating the economies of the smaller regional groupings which have been discussed here.

### Summary and Conclusions

The British Trout Industry has no history of co-operative activities, but is currently at the stage of investigating whether co-operative forms of organisation have anything to contribute to the improved marketing of production. This article has suggested that at this early stage it does indeed appear that there are some potential benefits to small and medium sized producers through co-operation.

Whether these benefits are realisable however in particular areas will depend very much on the location of members in relation to one another and the total volume of production which they control. The larger the volume of output which can be combined, the more attractive the economics will appear. The benefits of co-operation are also likely to be greatest for those producers considering extending the functions they perform by processing the product and marketing further down the distribution channel.

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