Year Book of Agricultural Co-operation 1986

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YEAR BOOK OF
AGRICULTURAL CO-OPERATION
1986

edited

by

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C O N T E N T S

EDITORIAL

In a world beset by many problems, created by both natural and man-made events, it is sometimes difficult to maintain an optimism which is based upon realism. Co-operative enterprise is an expression of such optimism which is rooted in the belief that through our own efforts, self-help and mutual aid, change for the better can and will come. Co-operatives being above all economic enterprises must, if they are to remain of any interest to their membership, produce economic benefits. These benefits may be converted directly or indirectly from economic into social benefits.

The expectations and the realisation of benefits arising from co-operative enterprises varies tremendously between different groups of members and between different countries. The ability of a co-operative to meet the members' desire to achieve benefits is of course dependent upon many factors. The conditions under which co-operatives operate, whether they be in terms of economic climate, governmental attitudes, competitive pressures, the effectiveness of leadership and professional management are all clearly significant. However, it does seem that whenever a group of sufficiently committed members are clear and determined in pursuit of their objectives, then there is no limit to the achievement possible. The objectives of any co-operative do need to be regularly evaluated, for the needs of the past generation are not necessarily those of today's. All too often, those involved in co-operatives shrink from the task of re-appraising co-operative objectives and the policies deployed as the framework for achieving these objectives. The reasons for this reluctance are of course infinite, but all too frequently include an unwillingness to admit the need for change and the threat to vested interests which could become exposed if objectives were seriously reviewed.

Co-operative forms of organisation have been prevalent at many stages of human development. In the context of the *available forms of modern economic organisations co-operatives need to be recognised as a more sophisticated organisational form and not to be seen as a simple, even primitive concept. Co-operatives are no easy option and are not for the faint-hearted; for to be successful they require a committed membership and a determined leadership.*

The promotion and development of co-operatives is a task not for bureaucrats but for those with a commitment to promote self-sustaining organisations which they are prepared to see develop independently. Co-operatives during their formative stages do however need a degree of protection from the unscrupulous and from political and other pressure groups who might seek to use co-operatives for their own ends. Legislation, and those responsible for its enforcement, should ensure that the co-operative develops as an economic enterprise by providing guidance but not direction. Co-operatives which continually need subsidies or external management would appear to be of little real value, either to members or to the nation. That is not to say that genuine support for co-operative development is not needed - it almost invariably is - but such assistance needs to be provided within the framework of a clearly-defined plan for its withdrawal on a phased basis over a reasonable length of time. Depending upon the circumstances, such help could extend from three to ten years. Longer-term assistance is usually needed where the community involved is disadvantaged, particularly by lack of literacy and numeracy.

Continuity of education is a non-optional policy, or principle, for all co-operatives. Co-operative education should not be confused with providing social activities for members - although this may be a legitimate way of devoting resources if that is what the members wish: co-operative education means continually keeping all those involved aware of the objectives, policies and the nature of the co-operative form of organisation. This applies equally to members, directors, managers and employees. Co-operatives *which fail to follow this principle will ultimately either fail as an economic organisation or cease to be a co-operative.*

In examining other non-optional policies or co-operative principles, co-operative leaders need to start from the position of their co-operative's objectives and see how such principles work in support of these objectives. There is no place for dogma in such a re-appraisal: innovative and imaginative approaches are always required. The Rochdale Pioneers, Raiffeisen, Plunkett and other co-operative founding figures were innovative in their time and there is no reason to suppose that development of co-operative thought ceased thereafter. New approaches are needed now, and will be needed in the future. Approach to capital in co-operative organisations is one example of the need to review policies in relation to current objectives. This issue and many others require much more detailed study and concentrated thought if co-operatives are to develop into the predominate form of economic organisation.

The <u>Year Book of Agricultural Co-operation 1986</u> contains articles which touch on many issues concerning co-operatives throughout the world. Changes which are taking place in the Moshav multipurpose co-operatives in Israel, the unique merger between farmers' co-operatives and farmers' unions in Sweden, and the appropriateness of workers' co-operatives particularly in developing countries, are subjects for the first three articles, each reflecting the changing nature of co-operatives. The article on credit co-operatives in Sri Lanka describes the origin, growth, decline and resurgence of credit co-operatives in that country. The need for the banking system to change to a co-operative approach for the development of rural areas is propounded for Nigeria. Other articles deal with problems of co-operative development; two countries which have a history of governmental commitment to the development of co-operatives receive particular attention - namely Tanzania and India. The events leading to the current changes in approach, and the reaction to *these changes are reviewed in three separate articles dealing with Tanzania; and rural co-operatives are the subject of two articles on India. After forty years of co-operation changes are now being suggested to bring new life to the co-operatives in Grenada.*

It is generally accepted today that the objectives of co-operatives are primarily economic. A series of papers shows the current recognition of the importance of the availability of the economic base-finance - not in the form of "donations" or aid, but as credit for which the borrower, however limited in means, is himself responsible. The benefit becomes double edged as the economic improvement provides the stepping stone from self-help to independence. The reality of getting credit to those who most need it is explored in papers which examine the various methods of making it available and the institutions which supply it.

In this the 58th edition of the Year Book of Agricultural Co-operation the diversity and adaptability of the co-operative form of organisation is again fully reflected in the range of articles included. Our hope is that it will add further to the knowledge, understanding and future development of co-operative enterprise.

CHANGES IN THE PATTERN AND PERFORMANCE OF THE MOSHAV MULTIPURPOSE CO-OPERATIVE

by David Kahan *

The purpose of this article is to introduce the reader to the moshav co-operative settlement, to describe the changes that the moshav has undergone over the years and to measure the impact of these changes on the ability of the co-operative to provide economic services to its members in an effective and efficient manner. Performance of the moshav co-operative unit was defined by measures relating to effectiveness and efficiency in the provision of credit, marketing and technical input services as well as the overall administrative functioning of the co-operative. In particular the criteria selected to measure effectiveness and efficiency refer to the ability of the co-operative unit to mobilise credit from the external environment; to control the repayment of debts; to control the level of co-operative activity and in particular the marketing of produce; to ensure member participation in decision-making; and to provide a wide array of economic services to members at minimum cost. This paper relies upon the findings of a number of studies carried out over the past few years by the author and others, on the co-operative unit of the moshav (2);(3);(5).

The Moshav Settlement in Israel

The *moshav* (pl. *moshavim*), a smallholders' multipurpose co-operative village, is one of a number of basic types of settlements in the co-operative agricultural sector, the others being the *kibbutz* and the *moshav shitufi*. The

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* Agridev (International), Agricultural Development Consultants, Israel

kibbutz is the oldest of co-operative rural settlements in Israel, first established in 1909 as a collective settlement. The settlement is jointly owned and operated by its members, and functions as a large multipurpose enterprise with agricultural, industrial and service branches. The moshav shitufi (collective moshav) is the most recent of the above co-operative settlements, established in the 1930's. It represents a transitional type between the kibbutz and the moshav. The production is collective, as in the kibbutz, but consumption is organised in private households. The moshav shitufi is of least importance in the overall national picture.

Historically, the moshav form of settlement was established in 1921 as an alternative to the kibbutz, which was criticised by some early pioneers for not maintaining 'normal' family home life. The importance of the moshav settlement to the agricultural sector is well recognised accounting for about four percent of the country's rural population and over 45 percent of agricultural output.

The moshav smallholder multipurpose co-operative village was established to promote farming as the major occupation and source of living for its members. Although the family is the basic unit of production and consumption, the co-operative unit of the moshav provides for the economic and social needs of its settlers.

The co-operative unit of the moshav has the function of supplying required economic services (marketing, credit and technical inputs) to the family farms. These services are provided for members within the normative constraints of equity and democracy.

The basis of the moshav settlement, when first established, was the ideal of productivisation (employment of Jewish labour in productive sectors), non-exploitation of others, and service for the common good (8). In concrete terms, this ideal was embodied in the following principles:

a) national ownership of land: which was seen as the basis for a new way of life;

b) self-labour: consisting of solely the farmer and his family and an absence of hired labour which could lead to the exploitation of others;

c) mutual aid: taking care of its members, providing communal services and cultural activities and looking after the education of its children;

d) individual holdings: signifying an attachment to homesteads and undertaking personal responsibility for individual farms;

e) co-operative services: through both consumer and producer multi-purpose co-operatives providing personal requirements for the settler as well as economic services - credit, marketing, technical supplies for the production and disposal of produce;

f) universal participation in decision making: participation of members through various democratic forums, free elections, secret ballot, etc., acting upon the basis of majority rule;

g) equality in standard of living: acquisition of an adequate and potentially equal standard of living through the provision of services orientated universally towards all moshav members.

The original moshav village was composed of a mixed farming system that created both self-sufficiency in producing and providing for the consumption needs of the household, and attachment to the homestead by the resulting presence of a wide range of ties. The importance of the farm unit was emphasised since it was taken to provide the main source of income for the moshav populace.

The image of the moshav institution was that of a highly 'gemeinschaft' community expressing a high level of social interaction and solidarity as well as the practice of mutual aid and responsibility, and lack of differentiation in standard of living. This concept of the moshav, being a 'family of families' was reinforced by the co-operative unit providing economic services and acting as a framework for corporate decision making in all of the major spheres of activity. The co-operative unit was to fulfil a central function in every moshav and its members were, by virtue of belonging to the moshav, also members of the co-operative society. Besides being an agricultural co-operative and upholding a specific way of life, the moshav constituted a unit of local government complete with municipal duties such as education, culture, leisure, health, security, religion, roads, hygiene, lighting and drainage.

The normative objectives of the moshav have been defined in general terms as follows:

a) to improve the economic, social and cultural conditions of its members by means of their organisation and settlement on national land, on the basis of self-labour, mutual aid and responsibility and common buying and selling;

b) to constitute a cell of local government within the boundaries of the co-operative society (6).

To sum up, the normative pattern of the moshav was characterised by a broad general set of community goals, which were to be implemented by an independent, democratic and bureaucratic political structure.

<u>The Normative Moshav Structure</u>

The normative organisational blueprint was to embody very definite precepts regarding both the functions of village organisation and its political-administrative structure. As far as the functions were concerned, the co-operative unit and its members were to have control over the decision-making process and to be responsible for their co-ordination.

Figure I sets out the generalised normative organisational structure of the moshav.

The sovereign body of the moshav was to be the general assembly, composed of its members. The assembly was given the function of electing the village institutions, council, committees and various sub-committees. Committees responsible for the various farm enterprises were to be nominated by the moshav council or committee and all of the moshav institutions answerable and responsible to the general assembly. The main tasks of the council were to act as the governing body between the convening general assemblies and to fulfil those functions which were not vested in the moshav committee, such as management of the village bodies, general financial and investment policy, acceptance of hired administrative personnel and, finally, acting as the municipal body of the moshav.

This normative model was regarded as the blueprint for future settlement patterns of moshav villages both in Israel and abroad.

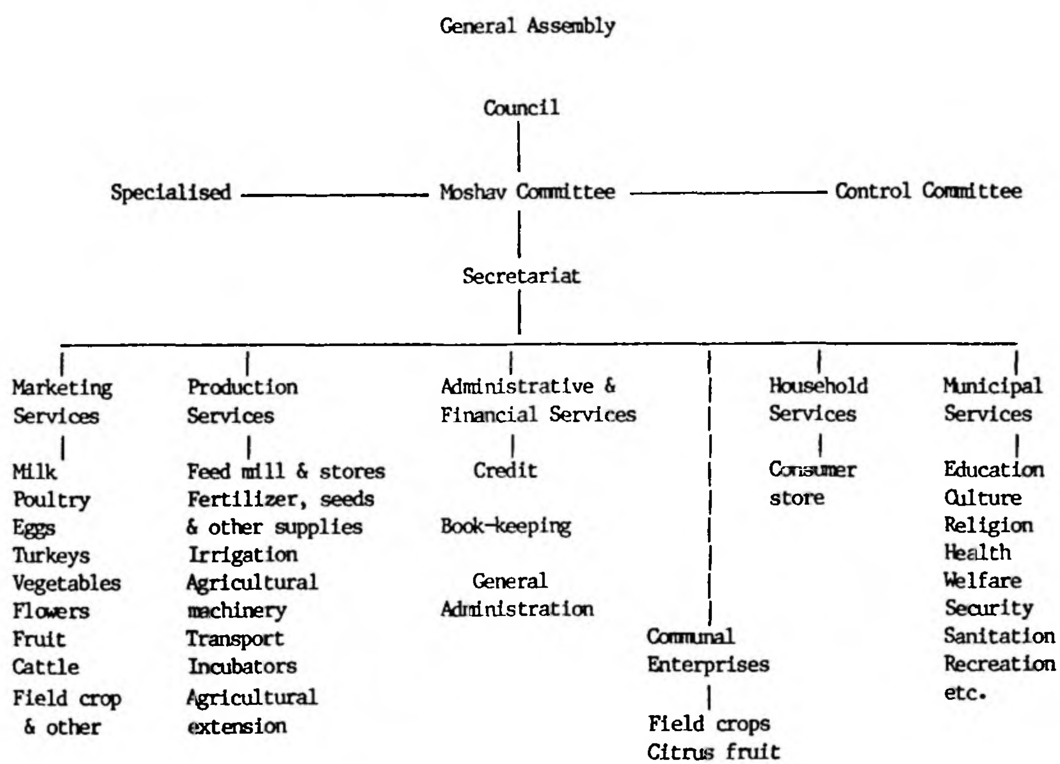
The Moshav Co-operative and Sources of Change

Over time there were many changes seen both within the internal and external environments of the moshav, having a wide ranging effect upon the normative monolithic pattern described in the previous sections.

A radical set of changes took place on account of socio-political factors. Political developments after independence in 1948 created a large influx of immigrants to the country. These immigrants came from very diverse ethnic backgrounds and consequently differed in their farming

Figure 1

Organisational Structure of the Moshav



ability and motivation (8). This phenomenon acted as an exogenous stimulus to change within the rural sector creating a new degree of complexity.

As the number of immigrants increased, the need for absorption, coupled with the national objectives of dispersed Jewish settlement, suggested a paternalistic approach to settlement planning. Thus settlements were both planned and co-ordinated by the settlement authorities responsible, i.e. from above.

The new immigrants, for the most part from traditional cultures of Moslem countries in the near east and north Africa and countries of eastern Europe, were not likely candidates for a kibbutz. The national authorities decided to direct the new immigrants to moshavim to develop them into commercial farmers and to mould the institutional structure of the moshav to their needs. This created a new type of moshav called the <u>moshav olim</u> (immigrant moshav village).

Rural settlement played an important role in the absorption of the new immigrants. More moshav villages were founded in the first few years of statehood than in the previous thirty. Well over half the moshavim in the country were established in the first three years after statehood.

The principal aims of this form of rural settlement were:

a) to increase agricultural production;

b) to provide immediate employment for immigrants;

c) to decentralise the population and develop new areas of the country (4).

Although settlement planning was directed from 'above', over time most immigrant groups tended to exhibit some independence in their ability to mobilise the resources required, and in their attitudes towards the moshav norms. The degree of change initiated by the immigrant members varied widely between different moshavim as well as between the moshavim and the normative blueprint. The confrontation of the normative structure of the moshav and the cultural and educational predispositions brought by the settlers, in all spheres of activity, involved mutual interactions that resulted in alternative moshav patterns being formed.

In addition to this, changes in the demographic nature of the established rural populace created the need to provide for the settlement and absorption of the younger generation of farmers either on their own or through settlement on 'second generation' moshavim.

Another factor of change, external to the co-operative proper, and yet particularly relevant to the moshav, was found to reside in the overall economic development in the country. Especially significant in this respect was the growth of internal markets associated with the population increase, and the switch-over towards a more differentiated farming system. This movement was synonymous with a transition from diversified agriculture at the farm level to that of a highly capital-intensive and specialised agriculture (9). The trend towards specialisation with the agricultural enterprise structure of the moshavim occurred over the last twenty years and represented a break from the traditional mixed dairy/crop farms.

The tendency towards specialised farming resulted in a movement away from domestic market orientations, towards the production of fruit, vegetables and flowers for export. Hence, over time, export crops began to replace mixed dairy farming as the major activity of the family farm sector.

More recently, in the late 1970s, owing to the economic recession in the economy at large, policy changes were made which had far reaching effects on the agricultural sector in general and the moshavim in particular. A government 'credit squeeze' was installed on the provision of credit to moshavim. This resulted in moshavim undergoing financial difficulties in their everyday functioning. A further differentiation between moshavim was observed in differences in management and ability to adapt to the general economic recession.

As a result of the inter-action of these changes, as mentioned above, modifications were seen in the operation and performances of the moshav. The variability in and among the moshav villages themselves was observed to be wide, but the discrepancy between the individual moshavim and their idealistic blueprint was noticeably even greater. Conformity with the normative moshav pattern, in many instances, all but disappeared. In the light of the above changes mentioned, over time, three broad categories of co-operative patterns emerged each deviating from the original normative blueprint (7).

There were the moshav olim of the post-war period settled by European immigrants most of whom originated from an urban background and were endowed with educational, social and organisational characteristics facilitating their support the co-operative village. However, this pattern, imposed from 'above' (government sponsored) failed in its responsibility to direct settlers ideologically towards upholding this form of settlement as a way of life. Nevertheless, in spite of this, the normative pattern was adopted as it was seen to provide the best means of securing institutional support and services. This co-operative pattern which was initially augmented from 'above' inclined towards a self-sponsoring from 'below'.

Towards the late 1950s and early 1960s, a further pattern emerged in moshavim settled by native-born descendants of the veteran moshav village and by a few of the veteran villagers themselves. The initial motivation to settle came from the members themselves with the desire to establish their own co-operative, deviating somewhat, ideologically, from the normative pattern.

In contrast to the above-mentioned moshav villages which were composed of an occidental populace, a different type of modification emerged within the 'oriental' immigrant moshav. As mentioned previously this moshav-type embraced the traditional immigrants originating from Asia, north Africa and the Middle East. Similar to the occidental immigrant moshav, the moshav pattern was imposed from above. These groups were also lacking in moshav ideology, but were by contrast educationally, socially and organisationally incapable of making formal co-operatives work. In this case, 'instant' transition to autonomy (i.e. being able to manage itself in a co-operative manner and to be less dependent on external organisations), as in the previous case, was greatly hampered.

Changes in the Pattern of Services Provided and Co-operative Performance

The major trends, having a direct bearing on the co-operative pattern of services provided to members, can be summarised as follows:

a) a move towards specialised export orientated products and agricultural diversification with the moshav villages;

b) changes in the economic sphere of activity, manifested by the reduction in credit supplied to the moshav sector as a result of government policy.

As mentioned previously the initial transition from mixed farming towards specialised export oriented production constituted the principal economic characteristics of agricultural development in Israel.* The prevalent

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* In actuality, according to Weitz, this transition is in fact, inevitable in all countries, signifying a predominant trend. (Weitz, R. from Peasant to Farmer, New York, 1971.

composition of farming enterprises in the normative moshavim as well as in some villages established in the 1950s, was mixed dairy farming. Floriculture or export-oriented turkey production was introduced on many moshavim as substitutes for either dairying or vegetable production and field crops.

The resulting movement towards specialisation at the farm level and product diversification at the village level was seen as having an impact on the major spheres of co-operative activity and structure. Within the co-operative programme, the trend influenced the scope of services provided, the level of co-operative involvement by members, the degree of co-operative activity, the demand for credit, and the policy criteria and operational methods underlying the provision of economic services.

On moshavim composed of smallholders with dairy enterprises the provision of credit and disposal of raw milk was carried out in a uniform way. With respect to marketing only a limited scope of services needed to be provided to members, as only two major activities (the collection and forwarding of produce) were mandatorily undertaken by the moshav co-operative. Furthermore, because of the small number of processing enterprises, limitations existed in the ability of the co-operative unit to manipulate the environment and influence the negotiation of contracts and delivery arrangements. In this way, moshav villages, characterised by mixed dairy farming, were seen to be limited in terms of both the scope of services provided and the overall organisational pattern.

Turning to credit, in the case of smallholders involved in dairy farming, the activities and range of the credit service were similarly uniform in nature. It was required that raw milk should be marketed through the village co-operative in its entirety, as law and custom ruled out the marketing of non-pasteurized milk to the general public. As such the moshav's potential credit transactions were in many respects guaranteed. The existence of a dairy enterprise constituted a stable flow of market returns and current expenses throughout the year. Working capital supplied by the credit union tended to be provided to members in the form of a regular flow of advance payments. A dairy-based moshav village, that was homogeneous at the village level was consequently characterised by a uniformity of credit sources, working capital requirements, time of credit provision and conditions of repayment. This uniformity limited the ability of the co-operative unit of the moshav to manipulate both the sources and possible uses of credit. The enforced channeling of members' payments and receipts through the moshav clearing system and the simplicity in the book-keeping of members' accounts enabled the moshav co-operative to operate as a credit union extending credit to members at terms stipulated by the co-operative. These terms did not necessarily reflect those determined by external lending organisations.

The changes in the farm enterprise composition had similarly a large bearing on the degree of involvement by members in co-operative marketing. Where dairying predominated, member participation was complete in its entirety. Where a single or limited distribution channel existed, as in the case of raw milk, co-operative involvement was ensured and the moshav co-operative was characterised by a uniform array of services.

In contrast to this, certain enterprises were seen to possess a wide potential for individual activity. In the case of turkey production, both marketing and credit provision were observed to involve greater activity, especially in decision making. With respect to fruit and vegetables marketed locally, and flowers directed to export, the involvement of the moshav co-operative unit was observed to be institutionally dispensable and a wide potential existed for individual marketing.

Within the credit programme, the movement towards diversification brought with it increasing demands for working capital throughout the year, and a subsequent expansion in the activities of the co-operative unit, leading to greater complexity in the financial sphere of activity. Together with the reduction in credit accruing as a result of government anti-inflationary policy, there was observed to be a growing need to manipulate and utilise funds effectively and efficiently.

The economic and financial changes, were further observed to have some bearing on the social composition of some of the moshavim. Farm specialisation at the farm level and product diversification at the village level had a direct effect on the homogeneity of social composition. Where initial social discord existed within the moshav, changes in the enterprise structure resulted in vested interest groups being formed in conflict with one another. These conflicting factions were observed as being directed towards their own individual self interests and as such tended to affect the allocation of resources and services.

In part as a result of both the farm enterprise changes and the general economic climate, it was shown that members found it increasingly difficult to repay debts accumulated. This phenomenon in itself influenced the level of co-operative marketing and tended to perpetuate the vicious circle of increased inability of repayment. As a result, the attitude of members towards the normative co-operative policy of mutual guarantees changed. An increased demand for greater stringency in credit provision was raised from members.

Furthermore, the transition toward specialisation/ diversification was seen to have an important effect both directly and indirectly on the internal structure and processes of the village co-operatives. A general trend was observed in some of the moshav villages towards a broadening of structure and an increased specialisation by the administrative leadership in certain areas of activity (credit and marketing). The increased size and complexity of the internal structure in order to provide members with a wider scope of services, were seen to have an effect on the administrative and overhead costs of the co-operative unit.

The increased demand for specialised knowledge resulted, in some cases, in the hiring of professionals from outside the moshav. These 'experts' were noted as playing an active part in the decision making process, rather than being satisfied with their traditional role of implementation of decisions incurred by the political strata. Although this phenomenon occurred, the principal decision making body continued to be the moshav committee. This factor in many instances was not in the best interest of the moshav as the political echelon were not the most equipped to take effective decisions owing to their lack of professional expertise.

Furthermore, there was no clear division of responsibility and professional duties observed amongst the administrative leadership. This resulted in a lack of consensus both amongst members and the administration, as well as between the administrative personnel themselves. The division of tasks was seen to be undefined and, in certain instances, influenced by the personal characteristics of specific leaders. The lack of administrative guidelines further influenced the status of the administrative personnel.

Although the above analysis refers to a general trend, differences were observed between specific moshav villages. In some instances, there was a recorded lack of correspondence between both the internal structure of the co-operative and the scope of services provided, as well as between the latter and the level of administrative costs. In some instances, the administrative costs were noted to be too high in proportion to the size of the moshav. In addition to these incongruities, variations were also observed regarding the scope of co-operative services supplied, the level of involvement by members and the level of co-operative activity. These factors, taken together and interacting with both the resource base of the moshav and the personal and situational characteristics of the administrative leadership, resulted in the formation of varied co-operative organisational patterns which were seen to differ both amongst themselves and between themselves and the traditional normative moshav pattern. The different moshav co-operative performance. The inter-relationship between the various organisational components is set out in Figure 2 below.

Results of the Changes and Problems Faced

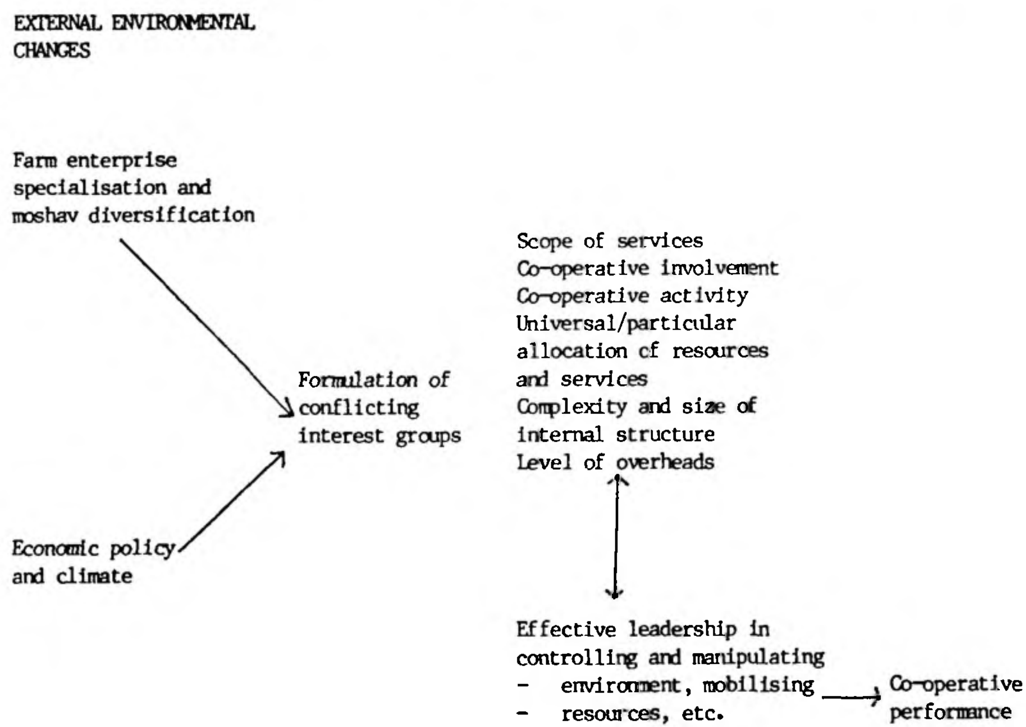
The extent of severity of problems emanating from these environmental changes were found to vary depending upon the social composition of specific moshav villages. On most of those moshavim, where a heterogenous social base was observed stemming from either family or ethnic factors, changes in the farm enterprise composition tended to aggravate the situation.

Specialised farm enterprises such as floriculture and turkey production demanded a heavy investment in infrastructure and working capital requirements. The increased demand for credit resulted in conflict between members. Moreover, with increased specialisation, the risks of seasonal failure for farmers became greater. This phenomenon resulted in an escalation in the volume of current debt owed by members, leading to a further increase in conflict. As previously mentioned, a consequence of these changes was that the criteria and operational measures underlying the activities became more inclined towards satisfying the self interests of the dominant group or of individual members, as reflected through credit allocation, the policy of guarantees, and the allocation of production quotas and overhead costs.

Enterprise diversification at the village level was seen to broaden the range of enterprises operated by members. In

Figure 2

Schematic Presentation of the Interrelationship Between the Co-operative Organisation Components



some instances, the supply of specific services on certain moshav co-operatives was reduced where the minimum threshold of operators necessary to make the provision of these services economic was not reached. Further this was seen to lead in some instances to intra-moshav coalitions demanding a wider share of the already existing services at the expense of weaker segments of the moshav. This movement away from the universal provision of services led to members organising services independently of the co-operative unit.

An additional problem, as mentioned previously, emanating from the above-mentioned changes, refers to the extent to which produce was marketed co-operatively. This phenomenon was viewed as a vicious circle. Debt accumulation was observed to take place as a result of a number of factors:

a) the increased demand for credit by certain farm enterprises;

b) the general economic recession;

c) the seasonal failures in farming.

In certain instances, the economic and financial difficulties lead members to ignore debt repayment and to market independently of the co-operative unit. In this way, income tax and VAT payments were avoided. The degree of non-co-operative marketing was influenced directly by the farm enterprise composition and the subsequent range of possible marketing alternatives.

Similarly the administrative leadership was unable to control non-co-operative activity. The function of control over decisions made was in many cases neglected. The situation was one where there were seen to be many decision makers, few implementing decisions and even fewer controlling their implementation.

Within the internal structure of the moshav co-operative, a number of problems were observed. The increased scope of services and activities that resulted in a corresponding increase in complexity and size of the co-operative unit was met by subsequently high levels of administrative costs. The need arose, in the interest of efficiency, to balance the additional structural complexity and range of services provided with the level of overhead cost incurred.

Previously it was noted that moshav members are both consumers of the services provided and equal partners with the administrative leadership, possessing the same decision-making rights. As joint partners, they are required to participate in determining policy through the democratic forums within the moshav, while as consumers they are influenced by the decisions made. It was shown that, in lieu of the above-mentioned changes, there was a tendency towards more decisions being made by the professional echelon owing to the increased need for specialised professional knowledge. As a consequence the balance between the two roles given to moshav members shifted. The degree of participation by members in the general assembly decreased on many of the moshavim. This took place because of the apparent irrelevance of the issues raised and the inability of the majority of members to vote effectively on subjects requiring professional expertise. Hence, individual members were viewed in general more as consumers than decision makers. In some instances, members were observed neither to influence the decision-making process, nor to receive information on decisions made. This change denoted a movement away from a universalistic orientation in decision making and information provision.

The growth and diversification of the co-operative organisation was seen to decrease the level of trust between members and the administrative leadership, resulting in a situation of 'mutual suspicion' (1). Under such circumstances, there was a need for the administrative leadership and individual members to attempt to resolve such problems and to prevent co-operative breakdown.

In the light of the above-mentioned factors, the onus lay with the administrative leadership to motivate and direct members towards co-operation and to help adapt to the ensuing problems. There was a need for relevant changes and innovations to be introduced. Performance could only be enhanced if the administrative leadership had the ability to mobilise resources, manipulate the environment, control decisions made, resolve conflicts, involve members, etc. The need for leadership, either by itself or in close interaction with members, to formulate the co-operative doctrine and programme in the light of these problems, and to direct its operations and relationships with the environment was realised.

Practical Implications

The practical implications of these findings are twofold:

a) the need to initially settle the co-operative with members motivated towards co-operation, endowed with a reasonable level of education and managerial ability as well as being socially and/or ethnically homogeneous;

b) the need to adjust the structure and pattern of the co-operative to the changes in the environment.

Failure to account for these needs is likely to result in a low predisposition by members towards co-operation and a subsequently low degree of participation and involvement in co-operative activities. A heterogenous moshav village both socially and economically is likely to lead to group conflict, inequitable distribution of resources and services, and an enhanced degree of non-co-operative activity. This process results in a general breakdown in the 'mutual trust' necessary as a prerequisite for effective performance.

In those instances were the successful performance of the moshav co-operative was maintained, the moshav administrative leadership was successful in resolving some of the above-mentioned problems. Following these findings it can be concluded that performance should be monitored and the most crucial areas of activity which give the greatest cause for concern identified.

Two strategies could be employed for tackling these problems. Firstly, there is a need for a more formalised structure controlling decisions made, for example, in co-operative marketing and debt repayment. This could be achieved through an accounts office providing decision makers with up-to-date information needed to enable them to plan and control the economic sphere of activity. In this way, rapid deployment of data could be made available. Secondly, the administrative leadership needs to motivate members towards the moshav principles of co-operative services, mutual guarantees and universal allocation of resources. This could be achieved through the leadership, ensuring that there is increased participation of members in the decision-making process. Such increased participation is likely to be achieved through the provision of pertinent information to members from the administrative unit. This is of particular importance where the decisions are taken by the professional echelons and are specialised and technical. In such cases members should be provided with an effective feedback on decisions made.

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FARMERS' CO-OPERATIVES AND FARMERS' UNIONS - A UNIQUE MERGER IN SWEDEN *

by Jacob Bjarsdal **

In 1970 a merger took place between the apex organisation of the Swedish agricultural co-operatives, Sveriges Lantbruksforbund, SL, and the national farmers' union of Sweden, Riksforbundet Landsbygdens Folk, RLF (National Union of Country People). This merger is internationally unique, or at least it was so at the time it happened. The intention of the book summarised here is to describe and analyse the underlying factors for this unification of two different types of farmers' organisations and to look for the results after fifteen years of the new organisation, Lantbrukarnas Riksforbund, LRF (The Federation of Swedish Farmers).

Development and Tendencies Towards Collaboration Before the 1960s

The Swedish agricultural co-operatives that had developed from the 1880s onwards did not form any general apex organisation for the first fifty years of their existence. It is true that the supply and grain marketing societies had formed a national organisation, Svenska Lantmannens Riksforbund, SLR (National Union of Swedish Yeomen) in 1905. but the other co-operatives, which were predominantly dairy societies, did not join this union and did not otherwise co-operate at the national, nor much at the regional level.

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* This article is a summary of certain parts of a book published in 1986 (1).

** Formerly of The Federation of Swedish Farmers.

The incentive for the farmers' co-operatives to come together on a national level came from outside the co-operative movement itself. Since 1917 there had existed a national organisation, Sveriges Allmanna Lantbrukssallskap, SAL, (The Swedish General Agricultural Society). It was formed by the county agricultural societies and also had some individual members, mostly big landowners.

The intention of SAL was to try to represent the whole agricultural community. For that reason, in 1928, at the suggestion of the newly appointed manager of SAL, Ludvig Nanneson, SAL decided to invite all the farmers' co-operative societies to become members. SAL would thereby be able to further both the general interests of the farmers and the development of agricultural co-operatives. The plan worked out well, and within ten years most Swedish farmers were members of a number of co-operatives which, also in line with Nanneson's plans, were united commodity-wise at national level and were all members of SAL. In 1939 the organisation changed its name to Sveriges Lantbruksforbund, SL (The Swedish Agricultural Union).

At the same time as this farmers' association, of both a general and co-operative nature, developed, a farmers' union movement also started, no doubt mainly caused by the agricultural crisis around 1930. Some local unions were formed in 1928, and in 1929 the national union, Riksforbundet Landsbygdens Folk, RLF, was established. During its first three years the attitude of the Union towards the farmers' co-operatives was ambiguous. In 1932, however, RLF decided to promote and support the co-operatives and so became an important tool for the rapid development that took place during the 1930s. The Union itself in the same period grew to become an accepted member of the group of Swedish popular movements (2).

From 1940 onwards both the co-operative-based SL and the farmers' union RLF were invited by the government to participate in negotiations about agricultural prices. Based more or less completely on the same membership, the two organisations grew in size and strength up to the 1960s. Most farmers had by then joined several co-operative societies, and their market shares were between 50 and 95 percent for different commodities. Through a series of fusions the societies had grown into effective enterprises. The farmers' union, RLF, had had for a long time over 80 percent of the farmers as members. It was not surprising then that many of the leaders, as well as ordinary members, were beginning to ask if there was really a need for <u>two</u> organisations to look after their interests at top level.

The Merger and the New Federation

At the end of the 1960s, investigations were made into ways of avoiding the disadvantages of having two main organisations with a number of similar functions. One idea brought forward was to amalgamate the two national associations, in order to acquire the strength to negotiate prices with the Government. Another suggestion was that the regional and local levels of the respective organisations should work very closely together. Another alternative was the opposite, i.e. to more clearly define and separate the tasks and responsibilities of the two associations, leaving price negotiations and pressure group activities to the farmers' union and making SL a purely co-operative apex organisation.

After many discussions a special commission presented a compromise, which in the end was agreed upon. It included a full merger at the top level between the co-operative SL and the farmers' union RLF, forming the new LRF (The Federation of Swedish Farmers). Its annual meeting should have half of its delegates from the union side and half from the co-operative side. The local and regional levels of the farmers' union should be maintained as before. The co-operative societies, after fusions now mostly on a regional level, should nominate two fifths of the committee members in each of the 26 regional farmers' unions, and the five big nationwide co-operative associations should each nominate one member of the national board of the new federation, LRF.

What was then the real content of this merger, that took effect from the beginning of 1971? The new national organisation of Swedish farmers' unions and co-operatives had a joint general meeting of 300 to 400 delegates, a joint board of 24 members, a joint secretariat and a joint member magazine. But the activities in the field, i.e. the 100 co-operative societies, the 800 union groups and 26 regional boards were not effected; they worked as before.

One reason from the union side for the merger was the difficulty in financing the administration and the costly research work needed for price negotiations and similar operations with only members' fees. The new federation was financed by over half the co-operative societies, where contributions, fairly modest in relation to turnovers, could be more easily agreed upon. Another important result of the merger was the new joint weekly magazine "Land", which became a great journalistic success and was also read widely outside the farming community.

An important principal question was that of "double membership", i.e. whether a member of one organisation should also be a member of the other. For co-operative members the question was never even discussed; they were usually members of LRF, as they were of the old RLF, but they were not requested to be. The other way around was the crucial question: should each member of a Union group of LRF be obliged to belong to the co-operatives in his area?

Formally this question had been already solved in the old farmers' union RLF, which, in line with its declared position concerning farmers' co-operatives, had a clause (No. 57) requesting every member "to join all the co-operative societies that his production gives reason to".

This clause was passed on in the bylaws of the new LRF without changes - it was even more natural now after the merger. The clause had, quite naturally, never been observed a hundred percent, but it had been important as a rule of conduct. How it has been discussed and how far obeyed within LRF will be further analysed here.

The LRF-model in Operation

The new Federation in many respects got a flying start in the beginning of the 1970s. Its first negotiations with the government about agricultural prices were successful. The rising price level for grain on the international market made the export of farm products valuable. Farmers and agriculture as a whole got a better standing in public opinion. All this was to some extent credited to the new Federation and made its work easier than it otherwise would have been.

The new joint board and the joint secretariat, after some difficulties at the start, began to function well. The annual meetings of the Federation LRF were arranged in the same manner as the farmers' union RLF had held them before; i.e. as a combination of annual meeting and congress with motions from the county unions, lasting two or three days and circulating among the regions. This was new to the representatives and leaders of the co-operative societies and brought them into a more direct contact with the members than before.

At the society and Union group level, however, the situation did not change very much. Even if the members were very nearly the same, they did not, during the first decade, develop that sort of interrelation that might have been natural because of the merger. A special report on working relations between the two branches of the Federation ended only in some vague recommendations. One reason may have been that the co-operative societies at that time were successful enough to do without any special support from the Union side.

During the 1980's the situation has gradually been changing. The author's contact with local groups has given clear evidence that hardening competition from private business enterprise is eroding the feeling of solidarity, and loyalty to the co-operative is subsequently in danger. The loyalty to LRF as a farmers' union is usually stronger than loyalty to the co-operative society. The clause about double membership then becomes just a piece of paper.

In that situation, the value of Union support has become obvious. The Union-co-operative relations at local and regional level are beginning to be vitalised. There has in later years been much talk about Union and societies "working together". The matter has come to the fore in the fields of information and education. Leaders as well as members of societies realise that both efficient co-operative enterprises and committed members are necessary preconditions for success. For the co-operative member commitment nothing could be better than the support from the farmers' union side of the Federation at all levels.

There are plenty of examples from the field that the merger in this way is beginning to work, at the local level and, still more, at the regional level. It never can, nor should it be that co-operative societies and the Union branches become <u>one</u> organisation. The societies have to remain as independent business enterprises, governed by just <u>their</u> members. The Union on its side, has to stay as an independent organisation for all categories of farmers. But the two can support each other enormously: the Union using the co-operatives as the main tool for achieving the best economic result for its members, and the co-operatives using the Union as their best promoter and supporter. In the Swedish situation this was considered to be carried out most effectively by the two organisations joining hands at the top and working together at lower levels. Experience will show how close and how far. The gaining of that experience is what is happening.

Already mentioned is the first example of "working together" i.e. co-operative societies in a district, according to the new rules, having to nominate at least 2/5 of the board members in each of the 26 district farm unions. This is working everywhere, even if it is increasingly difficult to organise because of the geographical incongruities between the areas of the societies and the district unions. It is, furthermore, now suggested that the right to nominate board members should be made reciprocal, so that the district unions can also nominate or co-opt board members from the co-operative societies. (This idea was discussed in conjunction with the merger, but was turned down).

In some areas, the societies work quite closely with the unions, using them as a forum for contact and information. The need for a closer co-operation in this respect is, however, the most common of all wishes put forward by study groups and individuals. The conviction seems to be spreading among members that the farmers' co-operatives on all levels could gain still more by using the Union as a supporting force. On the other hand, there are some leaders who still refrain from too much contact with "the Union side", supposing that it will diminish their independence. During the last two years the Chairman and the General Manager of LRF have on several occasions warned co-operative leaders not to think in this way.

Can the Model Last?

The dominating impression from the investigation of member opinion is that, in spite of some strain, the "marriage" between the two organisations will hold for the foreseeable future, provided that certain conditions are fulfilled. These are:

- that the "member benefit", derived from the combined efforts by the co-operative enterprises and the union work, could be more clearly defined;

- that the special advantages co-operative societies have over their private competitors, most importantly that of the commitment of their members/customers, could be better utilised - instead of the co-operatives trying in vain to imitate all the features of private business. While so engaging their members, the societies could take advantage of the fact that they have a strong union as a supporting force behind them.

- that the role and authority of LRF as the guiding apex organisation is generally accepted by all co-operative societies and their managing bodies;

- that the ideology of the combined force of Union and co-operatives, the "LRF-model", is thoroughly discussed on the broadest possible level, and then formulated in clear wording as a guideline for the future - all the more needed, since there are no international patterns to follow in this field, where the Swedish farmers are alone in the "front line".

Some Theoretical Definitions

Since both the idea and the practical implication of a synthesis of farmers' unions and farmers' co-operatives are new and so far internationally unique, it is of interest to try and formulate and develop a theory for what is occurring, even if it cannot be a complete one.

First it could be noted that the rapprochement introduced here between a movement of a trade union type and a federation of co-operative enterprises is in some respects a parallel to other forms of collaboration between separate forces in society. One example is the close co-operation in many countries between trade unions and a socialistic political party. Here, two organisations interrelate and work together in order to provide strength against common adversaries. However, in both cases there can be complications with the double membership, at least in Sweden.

Secondly, the co-operative society/enterprise is characterised by having two lines of connection with its members, which are at the same time its owners and its customers. There is an "organisational connection" between the society and its members/owners, and there is a "functional connection" between the co-operative enterprise and its customers/suppliers (3).

The first type of connection is typical and specific for a co-operative. A precondition for its functioning well is that there is a certain degree of social unity and solidarity among the members. Without such unity the relation deteriorates to a pure business relation. In such a case, the co-operative society/enterprise loses most of its specific advantages and will have difficulties in competing with private business.

One of the ways to preserve this necessary social unity and solidarity is to see to it that the societies do not grow so big that the members cannot maintain a direct influence upon the work of the society. The French co-operative philosopher Georges Lasserre says in this connection that it is important in a co-operative organisational system that there is at the base, among the individual members, always "a zone of direct democracy, which can be a forum for real decisions" (4).

In the big co-operative societies of today it is seldom possible to maintain such a zone of direct democracy. The Swedish experience is now that the new intimate relation between the farmers' co-operatives and the farmers' union movement can to some extent become a substitute for direct co-operative democracy. In the farmers' union with its many small units (1,600 local groups) questions and problems concerning co-operatives can be discussed, and in many cases also initiatives can be taken on how to solve them. In that way the loyalty and solidarity within the co-operative movement has been made a farmers' union matter. Both of the two lines of organisation, and thereby their members, have gained by this.

Why in Sweden? International Comparisons

Since farmers of many countries have developed both farmers' co-operatives and farmers' unions, it is a relevant question to ask why Sweden should be the only, or at least the first, country to integrate the two movements in the way that has been described here. In order to answer that question one ought first to take a short look at the situation in some other countries.

Among its Scandinavian neighbours, Denmark and Norway are of special interest. In Denmark "andelsrörelsen" (the farmers' co-operatives) have a long tradition and are nearly as dominant as the Swedish ones. "Landbo- and husmandsforeninger" are similar to farmers' unions and have for long worked together with the co-operatives in the "Landbrugsraadet" (The Agricultural Council). This common organisation is important, but is in no way an integrated body as is the Swedish LRF, since Danish agricultural production is mostly for export. Nor is there the same need as in Sweden of having a united force for relations with the state.

In Norway the situation is more similar to the Swedish one than in any other country. The farmers' union, "Norges Bondelag" has a long tradition and a powerful position in society. The farmers' co-operatives dominate in most of the commodities. To some extent inspired by the Swedish example, the two organisations have for a long time been planning for a closer co-operation. The situation is, however, complicated by the fact that there is also a special union of agricultural smallholders. Since 1980 a halfway merger has functioned, in that the co-operative apex organisation operates from the premises of Norges Bondelag, but with a separate governing board; however the smallholders are not included in part of this agreement.

In several other European countries both farmers' unions and farmers' co-operatives operate, but there is hardly any country where both these organisations have nearly all farmers as members. In England and Scotland the farmers' unions are powerful and have a high degree of support, but the co-operatives cover only a small percentage of agricultural production and supply. In many of the continental countries the situation is complicated by the existence of many competing organisations on both the union and the co-operative side. This makes the possibility of unity, or even of a near collaboration between the two, quite a remote idea.

Only in two continental countries have farmers' unions and farmers' co-operatives established a co-operation in some respect comparable to the Swedish or Danish one. In the Flemish part of Belgium the "Boerenbond" (Farmers' Union) has for a long time been a combination of a farmers' union and a co-operative apex body. The difference from the Scandinavian countries is however that as a co-operative, Boerenbond has only about 20 percent of the turnover of agricultural production and supply. Nevertheless, Boerenbond is a strong organisation, especially on the political and social side (5).

In the Netherlands the farmers' co-operatives are strong and diversified and have national commodity organisations. they form the "Nationale Cooperative Raad" (National Co-operative Council), where they work together with the three national farmers' unions (Catholic and Protestant). This arrangement has similarities with the Danish one, having a broad representation without being integrated.

With this background it may be possible to answer the question: Why Sweden and no other country? It seems to be because Sweden is, so far, the only country where both the farmers' union and the farmers' co-operatives have the overwhelming majority of the farmers as members/customers, and where both sides were kept together in one single apex organisation. In addition, the situation in Sweden is characterised by farmers producing practically only for the home market.

Only Norway had a very similar situation, and that country has also come very close to the same sort of merger as in Sweden. Flemish Belgium has tried the integrated type of a farmers' organisation, but cannot succeed entirely, because of weaker co-operatives and because of covering only part of the country.

In the situation the Swedish farmers experienced around 1970, everything pointed towards a unity of the farmers' union and farmers' co-operatives. There were leaders foresighted and clever enough to understand what the situation demanded, and there was a membership of farmers, enlightened and well-informed enough to accept the plans and carry them through.

The first ten years of the integrated organisation LRF were a great success. Agricultural prices were favourable, the negotiations with the state were successful, the new farmers' magazine Land was a success. LRF became popular among the members and respected by other forces in society.

The ensuing five years produced some strain: the economic situation for the farmers being difficult and the demands on LRF growing. The solidarity among co-operative members began to waver. But the final conclusion is that the LRF-model has been strong up till now, and that it will last for the near future. The problem of the lack of solidarity that some co-operatives are experiencing is not caused by the merger: on the contrary, it can be met and counteracted in a much better way with the farmers' union forces in the integrated organisation. Future development will show if this conclusion is correct.

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<u>WORKERS' CO-OPERATIVES - WHEN ARE THEY APPROPRIATE?</u>

by Malcolm Harper *

Workers' co-operatives have a poor track record and although no direct comparison of their success rate with that of other types of enterprise has actually been undertaken (and indeed this would be a very difficult thing to do) it is fairly clear to anyone working in this field that in spite of lavish and expensive support, many if not most workers' co-operatives fail, and many more only survive because of continuous and generally uneconomic assistance. Those who support this form of enterprise generally produce the Mondragon experience in support of their arguments. The frequent use of this example is in some sense an admission of the high rate of failure, since so much is made of this one isolated success. If a proponent of traditional capitalist enterprise could only refer to one medium-sized diversified corporation in northern Spain, or even to one very large multi-national company as evidence, this case would be considered very weak indeed.

This article attempts to examine the reasons for the poor record, building on the generalised conclusions of F.A. Ryan's article in the 1985 <u>Year Book of Agricultural Co-operation</u>, and in particular it poses, and suggests answers, to these fundamental questions:

- Are there some fundamental aspects of workers' co-operatives which make them more likely to fail than individual enterprises, even given the same conditions of economic, social and personal underdevelopment as outlined by Ryan?

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- Are there some conditions under which workers' co-operatives are more likely to succeed, which may be of some practical use when advising or assisting people who may wish to engage in this type of enterprise?

It is particularly important to try to improve the effectiveness of workers' co-operatives, because there is little doubt that when they do function as their members intend, they can represent a highly desirable form of organisation, with which one could not quarrel. Failures which arise from mis-directed attempts to promote co-operative enterprise may not only waste the resources of members and of the promotion agency, but they also discredit the whole concept of workers' co-operatives, so that they are not attempted in conditions where they could succeed.

The Objectives of Worker Co-operative Promotions

Anyone who is attempting to promote or assist any type of enterprise - agricultural or service, co-operative, corporate, or individual - must first of all be clear as to his objectives. The purpose may be to create wealth in general, to develop a certain number of employment opportunities or to create a certain form of society. Many enterprise promotion agencies have a mix of these objectives, as well as others, such as increasing exports, replacing imports or increasing economic participation of certain disadvantaged groups. All these objectives are legitimate, but it must be recognised that there may be "trade-offs" involved; there are for example programmes to promote self-employment among disabled people in the Sudan, Tanzania, Zambia and many other countries; it is usually more difficult to create jobs for these people than for others, but the extra cost is recognised in the original programme design.

Mixed objectives, however, may be more dangerous when they have ideological implications; if a particular form of enterprise is encouraged, or even imposed, because an external agent places a far higher value on wealth created in one particular way rather than another, he must be very sure that his views are consistent with those of the people he is trying to help.

What is a Workers' Co-operative?

It is also important to be clear as to what a worker co-operative actually is; it may in fact be unfortunate that the same word, 'co-operative', is applied to service co-operatives, where people get together to provide themselves with a service while retaining their own independent activities, and to workers' co-operatives, when they get together to own and control the enterprise from which they earn their living. In most countries the same government departments, legal regulations, training institutions and extension and advisory staff are expected to help worker and service co-operatives. It is all too usual for the regulatory and promotional apparatus which has evolved for service co-operatives, which are most commonly co-operatives selling farmers' produce and supplying them with inputs, to be applied to workers' co-operatives, which usually involve industrial rather than agricultural activities. It may not be possible or economic to set up a completely different structure for workers' co-operatives, but it is vital that anyone who is involved in any aspect of the regulation or assistance system should be clearly aware of the difference between these types of co-operatives, and of the particular problems which are discussed in this article.

The Inherent Disadvantage of Workers' Co-operatives

It is necessary to recognise that while workers' co-operatives have many advantages of equity, involvement and commitment, there are also a number of very important disadvantages which are inherent in this form of organisation. Nothing is perfect, and anyone who promotes workers' co-operatives must admit their deficiencies, and must be aware of ways of minimising them.

First of all, it is far more difficult to manage a workers' co-operative than an individual enterprise with traditional employer/employee relationships. Decisions have to be made jointly, which is inevitably slower than individual decision making, and this can reduce the advantages of flexibility and speed which enables small-scale businesses to compete with larger ones, whether publicly or privately owned. It has often been said that management is one of the scarcest resources in developing countries; any form of enterprise which requires more of this scarce resource than others must be treated with caution.

The supply of management skills is always likely to be more limited in a workers' co-operative than in a private enterprise; workers' co-operatives are usually craft-based, rather than arriving from perceptions of opportunity, and craftsmen and craftswomen are less likely to have the management skills and entrepreneurial flair than an individual entrepreneur. Entrepreneurs with these attitudes and skills are also less likely to be 'joiners' than people whose skills lie in making, rather than assembling the sources to take advantage of opportunities.

The management task is therefore more difficult and the members are less likely to be good potential managers. It may not be too much of an exaggeration to suggest that effective management of a workers' co-operative requires an almost saintly combination of qualities. The manager must have greater than average management ability in order to cope with the often divergent interests of members as well as with the normal pressures of business, and he or she must also be willing to forego much of the personal financial gain that is usually associated with this level of management skill.

The artisanal origin of many workers' co-operatives also frequently inhibits flexibility; if a group of carpenters come together to make wooden furniture, they will be less willing or able to change to different materials for different designs as customers' needs change. They may preserve their jobs unchanged in the short-term, but they will eventually have either to change or to cease operation altogether.

Artisans are also less likely to have their own capital, or personal access to other sources of funds, than are entrepreneurs; this can be overcome by various forms of assistance, but this inevitably reduces the degree of the personal commitment of the members of a co-operative.

Some managers of workers' co-operatives also complain that the co-operative system makes it difficult for them to use questionable ways of obtaining contracts, or access to scarce raw materials, that may have to be used in some situations. Activities of this sort are more difficult to conceal if they have to be carried out as a result of joint decisions, and although this enforced honesty may be praiseworthy, it may also lead to substantial erosion of the competitive position of the society.

The Imposed Disadvantages of Workers' Co-operatives

The above disadvantages are, as has been pointed out, inherent in the nature of workers' co-operatives and while attempts can be made to mitigate them, they cannot be totally eliminated. There are also a number of other disadvantages which arise because of government or other official activities, some of which are the result of agencies' attempts to overcome the disadvantages already described. No individual or group of people can become genuinely independent if they are perpetually and excessively assisted, and many workers co-operatives are prevented from facing reality by a substantial degree of over-protection.

In order to obtain access to the preferential services, whether these involve financial support, privileged access to raw materials or markets, training, or other services, workers' co-operatives must often go through a complex process of registration, and must conform to quite inappropriate regulatory requirements. Such formalities may be inevitable to ensure that only genuine co-operatives receive the services, but they also cause interminable delays and inefficiencies; a workers' co-operative in northern Tanzania had to wait twelve years for registration!

Because of the difficulty of management and the scarcity of management skills already described, support agencies often find it necessary to assist in, nominate or actually themselves carry out the management of workers' co-operatives. This not only further delays the obtainment of genuine independence, but also introduces an element of external involvement which may be very much against the interest of the members. Workers' co-operatives may be misused for political purposes, they may be directed to particular locations or to particular raw materials or markets, which are not in their best interests.

It is also all too easy for those who have initiated and then sustained the development of a workers' co-operative to be reluctant to allow it to become independent. The intensive support which is necessary, because of the inherent disadvantages already described, makes it difficult for the 'mother' support agency to release her 'child', a fully fledged worker co-operative. The hardest part of any development task is often that of accepting rejections by the institution or individual who has been assisted. It may also be cynically argued that some governments or agencies, foreign or local, prefer to encourage workers' co-operatives rather than other forms of enterprise because they want to maintain a degree of influence and control, from whatever motives.

What Can be Done?

The foregoing paragraphs may have given the impression that the disadvantages of workers' co-operatives, whether inherent or imposed from outside, are so overwhelming that this form of enterprise should be discouraged or even prohibited. This is not the intention; Mondragon is not the only successful workers' co-operative - there are some 200 functioning organisations of this type in Tanzania alone, and recent experience in the United Kingdom shows that the stimulus of unemployment, supplemented by modest government support, can lead to large numbers of successful co-operatives of this type. Disadvantaged groups, such as minority tribes, women in some societies or refugees have also shown that shared hardships or oppressions can be a powerful stimulus for effective co-operation.

Many of the more successful workers' co-operatives are not formalised as such, and those which are least known may be those which are the most successful because they have received least external support. Readers of this Year Book, however, are more likely to be involved in the promotion of workers' co-operatives, than actually being members or potential members of them. What can they do to minimise the disadvantages which have been described?

They should first of all not impose or even aggresively promote workers' co-operatives as a preferred form of organisations; many of the problems, as already indicated, arise from the fact that too many workers' co-operatives are initiated not by their members but by outside bodies. Outsiders should confine their role to describing the various forms of operation that are available for any industry, and should warn people who want to start a business of any kind about the disadvantages and drawbacks of any approach. The final decision, and the initiative, must come from the people themselves.

The Conditions for Success

It may also be useful to take account of various conditions which experience has shown are important contributors to the success of any workers' co-operative. It may be going too far to say that each of the following is a necessary condition of success, and that none of them is a sufficient one. But it can be said with some confidence that if a proposed workers' co-operative does not appear to conform to the majority of the following, it is not likely to succeed.

- First and foremost, the group must have a leader. This does not imply that it will not be democratic and equitable, but there are very few successful groups where one person is not the guiding spirit. This need not be the chairperson, or other formal office holder, who may be appointed for quite different reasons, but there must be one person with whom outsiders can communicate, and who is respected as the leader by the others.

- There must be a genuine demand for whatever products or services the group proposes to offer, and this demand should not be based on their sympathy for the producers, or their enthusiasm for worker-co-operation, but on the quality and value of what is offered.

- The enterprise must be fundamentally viable, without continuing subsidies. The potential revenues must be sufficient to cover the cost of materials and overheads, and to pay a reasonable wage to the members, which is more or less equal to, or more than that which they could earn elsewhere. And it must also be capable of generating a surplus for re-investment in future growth.

- The enterprise must be run in a business-like way. This does not necessarily imply that formal book-keeping or other records are necessary or even desirable. What is most important is that whoever is the leader of the enterprise must understand the basic economics of what is being done, and must appreciate the need for and be able to prepare and use whatever records are actually necessary. Records that are maintained by the outsiders and are not used by the members or at least by the leader are often worse than useless.

- The members must between them have or be able to acquire the skills which are necessary for their enterprise; if they are permanently dependent on outside assistance for some part of the manufacturing process, or for materials, purchasing skills or other aspects of management, they will never become genuinely independent. Training can help to overcome skill deficiencies, but it must be practical and job-related. The potential of training is often over-rated, and it may even be counter-productive by giving people the impression that they can do things that they cannot, or by training them to do things which circumstances actually prevent them from doing in their co-operatives.

- The motivation of the members and of those who are assisting them should be mainly economic. A business, of any kind, is first and foremost an economic institution, and a business which is chiefly a political or ideological statement is unlikely to survive.

This list may appear daunting, and even partial application of these standards could seriously limit the number of worker co-operatives which are started. This may be all to the good; it is far better for members, and for the credibility of worker co-operatives in general, if there is a small number of genuinely viable co-operatives rather than a large number of failures.

THE TRAGEDY OF CO-OPERATIVES IN TANZANIA: SOME IMPLICATIONS FOR DEVELOPMENT

by Kilonsi Mporogomyi *

The development of an appropriate agricultural marketing system has been one of the main concerns of the Tanzania Government since the country's independence in 1961. This is evidenced by the existence of marketing and processing organisations as principal instruments for accelerating the agricultural and rural development process. Institutional arrangements which were created included co-operatives. These were promoted in all parts of the country with the objective of creating a single-channel marketing system for all important cash and food crops. Co-operatives were formed to avoid exploitation by middlemen and for political reasons by local politicians.

In Tanzania, co-operatives form an important part of the Government's overall development strategy, including the achievement of social objectives and they have always benefited from economic assistance. Consequently, there is considerable interest by the State in the regulation of co-operative activities. Co-operatives in Tanzania were established for the promotion of agricultural production and this means that their integrated role has been as supervisor of the State's agricultural policy. Their important task has been to encourage the production of certain of the State's strategic crops. Cultivation, the selling of inputs to the peasants and marketing of products has taken place (at least in theory) totally under the tight control of the Government. This system has tended to be concentrated on State aims and earnings and has caused a situation in which the farmers' benefits have decreased. The farmers have, therefore, increasingly become dissatisfied with routine

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procedures and services and corruption and mismanagement increased dramatically. The co-operative mechanism was therefore continuously disrupted and the majority of the co-operative unions in Tanzania had to die.

This article points out some of the difficulties which surrounded and governed the Tanzanian agricultural co-operatives as a vehicle for rural development between 1961 and 1974. The reasons for co-operatives being left to die at a time when the country's Second Five Year Development Plan (1968-1973) had singled out the co-operative as a basically socialist institution, are analysed (co-operatives were to play a major role in the development of rural socialism). The article further explores the failures in crop marketing that followed the collapse of co-operatives and finally shows why co-operatives in Tanzania should not have been allowed to die. It concludes with a note on major tasks for the "new" Government in enhancing the "new" co-operatives.

Background

Co-operatives in Tanzania started at the producers' initiative to obtain better prices for their cash crops and encourage African-owned enterprises. On 1st January 1933, the first society, the Kilimanjaro Co-operative Union and eleven affiliated societies were registered (1). Rapid expansion in the co-operative movement was significant from 1961. The Government accepted this expansion as a means of economic independence from expatriates and non-Africans. During this period due care was taken to ensure that societies without potential scope for viability were not registered. Commensurate steps to have a proper co-operative department, members' education and trained manpower to run the co-operatives were however not taken. The result was a mushroom growth, mismanagement, inefficiency and corruption by employees and office holders. Following these allegations, the Government appointed a special Committee of Enquiry into the Co-operative Movement and Marketing Boards in 1966. The major findings of the Committee included - among others - the following defects (2):

a) members of many societies were uninformed about the nature of co-operatives, how they were supposed to function, the duties of the committee of the society and the powers and responsibilities of the members assembled at the General Meeting;

b) there was a shortage of manpower to staff the co-operatives, because of dishonest and inadequately trained employees;

c) farmers did not regard the union as belonging to themselves;

d) the co-operative movement was susceptible to political interference;

e) there was overlapping of duties between the unions and the marketing boards. The basic function of the union was to ensure the marketing of crops collected by the primary societies. A legitimate question which was often asked by the farmers was why the marketing boards were needed at all.

However, generalisations about the functions of the marketing boards are difficult to make since they were created to meet the different needs of the various crops, and vary in the breadth of their functions. For example, the Lint and Seed Marketing Board pays for transportation from the godown of the societies to the ginneries, supervises ginning, has full control of the lint cotton and cotton seed as soon as it is produced, and operates a price assistance fund. At the other extreme is the Seed Board which merely licenses exporters and producers without limitations as to quantities.

One common function of the marketing boards is that they arrange for the final sale of the crop, or of the crop after primary processing. The cotton lint is sold at public auctions as are cashewnuts by the Cashewnut Authority of Tanzania (CATA). The Tobacco Board sells part of the crop of the cured tobacco by private treaty and part at auction. The Coffee Board does not get a property interest in coffee, but arranges its sale. The manner of sale differs because the markets for the various crops are different; consequently it is necessary to employ knowledgeable people in the marketing of the various crops. However, it does not follow that one needs independent boards. The specialists could as well be employed by the co-operative. A second function, performed by the marketing boards generally but not always (the Pyrethrum and Tea Boards are exceptions) is the final grading and weighing. However, the boards do not generally perform these functions through their own personnel but employ private firms to do so and to give certificates which are accepted in the trade. Such employment could as well emanate from a co-operative as from an independent marketing board. This is also true for research and for contracts for shipping produce both within the country and overseas.

The Arusha Declaration of 1967 marked a decisive step towards state ownership. The Government took over the administration of a number of co-operative unions in less developed areas where most co-operatives had been formed after independence. Besides nationalisation, the Arusha Declaration also envisaged a major programme for rural development through the introduction of ujamaa villages to promote and create communal village production units. The development of ujamaa villages during the first years after the Arusha Declaration was slow until the Government took some initiative in 1970/71 to speed up the villagisation process. The then President Julius Nyerere took a lead during "Operation Dodoma" and lived in one of the villages (3). Towards the end of 1971, at the annual convention of the Co-operative Union of Tanganyika, the President himself took the opportunity to clarify the relation between ujamaa villages and the co-operative movement. The important message was that as ujamaa villages took up marketing activities, the traditional co-operative societies would gradually die.

Co-operatives and Government Policy

In the Second Five Year Development Plan (SFYDP) (1968-1973) it was stated that the "Co-operative is basically a socialist institution". It was argued that the co-operative movement in Tanzania was "a source of considerable strength for the growth of socialism ...". guidelines for the co-operative movement were also given as substantiated by the following paragraphs (4):

> "A central part in the development of rural socialism in Tanzania must be played by the co-operative movement; and for it to fill a progressive role, however, it must be revolutionised".

Two changes were, therefore, necessary: co-operative societies were required to be production-oriented; and democratic participation of the membership in the control of all co-operative activities increased. In general, the SFYDP was to represent a transitional period during which the traditional marketing functions of the co-operatives were to be made more efficient for the benefit of the farmer while new growth was to be shifted sharply in the direction of production and multipurpose societies.

However, the above policy was completely reversed from 1975 when co-operatives were abolished and their functions, as well as assets, were transferred to villages. Similarly, in 1976 the co-operative unions were also abolished and commodity boards were converted into crop authorities to take over most of the functions of co-operative unions, dealing with village authorities for marketing, input supply and extension activities. This new marketing method was seen as an opportunity to reduce costs and increase efficiency in handling crop produce from the farmers. In June 1974, the National Milling Corporation (NMC) decided that procurement of crops during the 1974/75 season should be done directly from co-operative societies in seven of Tanzania's twenty regions (8). The Tanzania Cotton Authority (TCA) and the Cashewnut Authority of Tanzania also followed suit. There were other decisions taken and announced during 1974 which tended to further limit the role of the co-operative unions in agricultural marketing and production. These included the transformation of the Tanganyika Coffee Board (TCB) into a marketing authority, the establishment of a food crop authority, the appointment of crop authorities as fertilizer agents, each for one or more regions, and the establishment of tractor and agricultural machinery stations in every region. The first ones were to be run by the Tanzania Tobacco Authority (TAT).

The decision of the Minister of Agriculture to authorise the crop authorities to deal directly with the primary co-operatives was to give an 'opportunity' if in doing so it would result in a reduction of costs and in increased efficiency in handling crop produce from the farmers. The Minister further stated that it was expected in regions and districts where corporations or authorities had their own branches that handling costs would be greatly reduced if they offered the buying agency directly to primary co-operatives instead of to regional co-operative unions. By 1974, it became possible for crop authorities to by-pass the regional unions and deal directly with the primary co-operatives. The NMC was the first to avail itself of this opportunity in seven regions. This system naturally produced overlapping functions, particularly at the regional level. The primary co-operative societies handled virtually all local marketing. But at the national and international level, the same activities were undertaken by national crop authorities which unions undertook in the regions. This overlapping and duplication ultimately resulted in the abolition of the unions.

The Management Problem

During the period 1975-1981 there were several problems of efficiency. Frequent and drastic changes in the institutional marketing system were disruptive. The marketing infrastructure was poorly organised. For example, training of personnel specialised in different functions including storage management and financial record keeping was not adequately planned. Such a system could not serve the producers properly and, more specifically, the Government could not draw attention to the mass poverty. The responsibilities assigned to the crop authorities in the country have been on the increase and little or no attention has been given to building up their capital structure for sustaining a large infrastructure in the form of godowns, transport vehicles, weighing scales etc, for facilitating the handling and storing of crops in an efficient manner. Moreover, the country's weak capacity in the management system and the lack of skilled and trained manpower is widespread (9). This is, however, a feature of most public organisations and government ministries. A serious deficiency in the working of the crop authorities is that their accounts are in arrears. The Government has been making efforts to improve the financial performance of the parastatal sector by identifying and overcoming weaknesses in the financial structure, organisation and operations of key enterprises. For example, in 1979, the Government directed parastatals to take measures to improve their production, targeting, financial planning and accounting practices. The Government also directed parastatals to comply rigorously with the Regulation of Dividends and Surpluses Act, which requires the prompt annual submission of comprehensive budgets and accounts. This information was to enable reviews of their pricing policies and cost structure, in order to avoid the recurrence of unplanned deficits. However, a report on the National Milling Corporation by the Director General of the Tanzania Audit Corporation released in April 1984 gave the following gloomy picture:

"a) Most of the basic accounting records necessary for our examinations were not available. The records relating to assets, liabilities, revenue and expenditure that were made available for our rectification were deficient in material respect and hence, could not be relied upon.

b) Material differences between the control account balances and the subsidiary record balances were adjusted in their accounts without proper analysis and reconciliation.

c) Proper books of accounts were not maintained in so far as it appeared from an examination of those books."

According to this report, the auditors were unable to form an opinion as to whether the accompanying Balance Sheet and Trading and Profit and Loss Account presented fairly the financial position of the NMC as at 31st July 1980, and its loss for the year ended on that date. It should be noted as pointed out elsewhere (9) that the absence of clean accounting data makes it difficult for any public organisation to ensure the needed measure of financial control and also of the cost of policies the Government wants to implement. A number of parastatals in Tanzania have been accumulating losses leaving their capital structure very weak. Several causes account for these losses but mainly they can be attributed to inefficient management, bureaucracy and corruption. These culminate in lack of control over the stocks procured leading to loss of goods in transit and in the godowns, mis-application by villages of cash advances made for crop purchase, incurring of transport costs which could otherwise be avoided, maintenance of large balances in the current account alongside an overdraft account, credit sales to Government departments and parastatals, misappropriation of cash balances by staff, over-manning, etc. Many public companies have had to depend upon bank finances for most funds needed to carry out their activities as well as for subsidies from the Treasury. It is important to note that the continued provision of subsidies to public companies further encourages inefficiency. In my opinion, the Government should distinguish between the commercial and social policy functions of parastatals, so as to identify clearly the cost of social measures and their budgetary implications. The continued presence of some companies is a liability to the country and certain situations regarding the elimination of some companies have been defended unnecessarily.

In what follows, the failure in crop marketing subsequent upon the collapse of co-operatives is analysed briefly. It is pointed out that as the crop authorities suffered from mismanagement and operational losses, the operational costs were higher than those previously incurred by co-operative unions.

Operating Expenses of Crop Authorities

Available evidence suggests that the handling costs by co-operatives were much lower than the crop authorities (8). It is argued that while it may be true that in some co-operatives the cost of handling might have been higher, there were many unions which were efficient and the cost of handling would not have justified their dissolution. For example, the table below confirms that while the co-operatives' margin, which was 16.5 percent in 1970/71 declined to 11.9 percent in 1974/75, the cotton authorities' margin increased from 15.2 percent to 40.5 percent during the corresponding period.

Table 1

Cotton Price and Marketing Cost Structure - Seed Cotton
1970/71 to 1974/75
(Division of cotton realisation between different bodies)

	1970/71		1971/72		1972/73		1973/74		1974/75	
	Cts	%	Cts	%	Cts	%	Cts	%	Cts	%
Sales Price	161.4	(100)	192.0	(100)	194.7	(100)	298.4	(100)	345.0	(100)
Export Tax	6.8	(4.2)	6.8	(3.5)	6.8	(3.5)	6.8	(2.3)	24.4	(9.1)
Authority Margin	24.6	(15.2)	55.2	(28.7)	55.0	(28.2)	151.0	(50.6)	139.6	(40.5)
Co-op Margin	26.6	(16.5)	26.6	(13.9)	26.3	(13.5)	34.0	(11.4)	41.2	(11.9)
Producer Return	103.4	(64.1)	103.4	(53.9)	106.6	(54.6)	106.6	(35.7)	139.8	(40.5)

Source: MDB (1985), Dar es Salaam

With regard to cashewnuts it was shown that the village levy for 1976/77 (MDB 1977/1987) following the closure of the co-operative unions, was increased from T.shs.60 to T.shs.100/- per ton by parastatals. In the case of flue cured tobacco, the purchase and handling charges increased drastically from 3.1 cents per kg in 1975/76 to 11.9 cents per kg in 1977/1987. The sharp increase resulted from TAT taking over the functions of the former Ruvuma Co-operative Union in the 1976/77 buying season. In response to a growing awareness of the operational deficiencies of parastatals, a Commission to investigate the possibility of reinstating co-operatives was appointed in 1980. This

Committee strongly recommended the re-establishment of co-operatives. Preparations and planning for a transition from crop authorities to co-operatives were undertaken; and finally legislation approving the formation of co-operatives was introduced in 1982. The Commission's main findings were that:

a) The crop authorities' main interest remained confined to buying of crops and they were more concerned about distribution of inputs to the farmers.

b) Co-operatives arranged supply of essential items like corrugated iron sheets, cement, farm implements, etc. to its members which they bought directly from manufacturers at a lower cost.

c) In the absence of co-operatives, the manufacturers had to open wholesale and retail points which added to costs, in addition to the inconvenience to the farmers of not being available at one place.

d) Co-operative unions had become an important centre of trade in a cluster of villages where farmers could go and buy their requirements and also sell their produce. With the abolition of co-operatives, the farmers had to go to different marketing boards and were still not sure of getting proper services.

e) There were complaints of delayed payments by the co-operatives due to lack of proper communication and planning between the headquarters and branches.

f) There was misuse of manpower, transport and other facilities due to distant control of the branches by the crop authorities.

g) Many co-operative unions were providing various extra services like transport, production farms, processing and other social services for the benefit of the people in the area, which were not possible for the crop authorities to undertake.

h) Crop authorities not undertaking multi-farm activities could not reduce the cost of operations which in fact proved higher than co-operative margins.

Agricultural Pricing

Co-operative pricing policy in Tanzania until 1974 was based on the universal co-operative marketing approach where co-operatives made an advance payment to the farmers as a part of the anticipated recovery, and a final payment after the final sale of the produce and finalisation of accounts. The co-operatives, after taking delivery of the produce and making an advance to the farmers, graded/processed and delivered it to the concerned board for disposal within the country and outside. In some cases, the co-operative unions also made direct sales within the country as well as through boards. Under these arrangements, both co-operatives and boards acted more or less as agents of the farmers and all the profit and loss was on the farmers' account. The weakness of the Government pricing policy was that smallholders were paid the residual after all the marketing institutions had deducted their costs of operations. The National Agricultural Products Board (NAPB) and other commodity boards which were responsible for agricultural marketing set prices but the co-operative cost of operations took up to 50 percent of this payment. This had the effect of forcing down prices to smallholders as low as possible and did not take into consideration producer costs of production. It is felt that this practice initiated Tanzania's current production declines. It is argued that an increase in agricultural prices are essential in order to raise production. There are a number of arguments often made (in the case of Tanzania) as being responsible for this decline, such as the declining terms of trade for the agricultural sector during the 1970s. This state of affairs is illustrated in Table 2.

Table 2

Agricultural Price Indices in Real Terms - (1969/70= 100)

Food Crops	1969/70	1975/76	1978/79	1981/81
Maize	100	142	107	97
Paddy	100	96	81	87
Wheat	100	87	77	75
Sorghum	100	124	117	75
Export Crops				
Cotton	100	91	77	76
Cashewnuts	100	55	63	71
Tobacco	100	68	51	55
Tea	100	65	77	50
Pyrethrum	100	70	79	83

Source: Adapted from Basic Needs in Danger: A Basic Needs Development Strategy for Tanzania; ILO: Addis Ababa 1982. Table 3.4, page 21

The above table shows that the real price of agricultural products fell during the 1970s. In particular, those of export crops fell significantly in real terms compared to the prices of food crops. The effect of this fall was to reduce the incentive to work on farms viewed in terms of the relative importance of the income effect. It is argued that a high price would have induced farmers to work harder. However, it should be noted that in Tanzania a number of other constraints on agricultural production have limited increased output. These include disease (coffee), loss in soil fertility (cotton), shortage of labour inputs (cutters in the case of sisal), poor weather, shortage of inputs and transport and frequent power interruptions.

The other explanation often made is that low prices in agriculture pushed the cash economy into food production which was much more lucrative in terms of prices offered in the unofficial market. However, some of the farmers who remained in the production of cash crops also sold their produce through unofficial marketing. There is evidence to suggest that black markets in cash crops in Tanzania have been significant (7).

After 1974, the Government declared minimum prices for selected commodities, whose prices were regulated to ensure a fair return to the farmers in line with the broader national policies. Co-operatives and crop parastatals were to purchase these commodities at these declared prices. Any surplus or deficit had to be on the account of co-operatives, boards or parastatals. In 1983 the Government announced an Agricultural Policy in which there was an express objective of improving the efficiency of agricultural marketing and marketing institutions. The policy envisaged that for this improvement to be achieved, there was a need for investment in marketing infrastructures and the training of personnel specialised in its different functions including storage management and financial record keeping. To ensure the required efficiency in marketing, the national marketing institutions would generally be relieved of production and processing activities.

In this section, it has been shown that agricultural prices are significant in explaining the production behaviour of the Tanzanian peasants. State policy neglected questions of agricultural pricing before 1974. This neglect has had negative implications for the agricultural performance in

Tanzania. Following Ellis (6) (p.264), this neglect is considered as a serious omission since over 80 percent of the country's population derive their livelihood from agriculture, which is also the major source of foreign exchange needed for the country's import requirements. In particular, Tanzania's import-intensive industrial sector depends on agriculture. These issues which are related to the role of agriculture in the country's development process are important. It is argued that the general level of agricultural producer prices is an important determinant of the rural-urban terms of trade. It also determines the effects of relative prices on the composition of marketed crop output (6). It is important to note that the period between the late 1960s to the 1980s is singled out as composed of two sub-periods involving the organisation of crop marketing which in turn distinguish two separate approaches to state intervention in producer price formation in Tanzania. The co-operative marketing system often referred to as the "three-tier single channel marketing system" was composed of the primary co-operative societies, regional co-operative unions and the agricultural marketing boards. State intervention in this marketing arrangement was directed at fixing the prices at which marketing boards purchased scheduled crops from the regional co-operative unions. Producers received a certain price less the unit marketing costs of co-operative unions and primary societies.

However, these costs were subject to approval in advance of each crop season by the Commissioner for Co-operatives. This meant that average prices received by producers differed according to significant geographical differences depending on the differing agreed marketing costs of particular societies and unions. The co-operative cost of operations took up to 50 percent of the payment to producers. The effect of this was to force down prices to peasants as low as possible and did not take account of producer costs of production. This practice may have contributed to the country's current declines in agricultural production. This structure of agricultural price formation, which took into account the producer price and geographical price differences, was later eliminated adopting the single pan-territorial producer price for each scheduled crop determined annually by the decision of the Economic Committee of the Cabinet.

The Agricultural Policy of Tanzania (1983) states that prices paid to the farmers for their crops affect total output up to a ceiling imposed by physical and technical factors. They also determine the incomes which can be earned by the peasants, and thus affect the push/pull factors in migration from the villages to the towns. It is important to note that the absolute level of prices which increase the peasants' take-home income is important. As can be noted above, price fixation is no longer within the powers of the co-operatives and boards and they have to operate on the basis of prices declared by the Government. The implication of this is that co-operatives and boards are no longer really the agents of the farmers but have become implementing agencies of the price policy of the Government. Consequently any losses on this account have to be borne by the Government since boards are owned by the Government while co-operatives belong to the farmers.

Conclusion

The confused character of institutions handling agricultural produce in Tanzania has tended to limit people's confidence in co-operatives. In many developing countries, co-operatives are treated as Government agencies and not autonomous democratic institutions. The recent trend in these countries has been for economic activities to be very dependent on Government policies. As a result of this, co-operatives cannot afford to remain in isolation and indifferent to the Government. As a whole however, co-operatives should contribute in large part to national efforts to lift and improve the socio-economic conditions of the masses without necessarily losing their own identity.

Although price policy objectives differ from country to country, the main ones include:

a) stabilising prices to agricultural producers;

b) encouraging food crop production to achieve self sufficiency;

c) encouraging export commodity production to improve the national economy;

d) providing a flow of raw materials to domestic industries;

e) raising rural incomes;

f) stabilising food prices to consumers and minimising their rate of increase to reduce inflationary pressure on the economy;

g) generating Government revenue by taxing the surpluses of the agricultural sector.

Pricing policies cannot be treated in isolation but must be analysed and implemented within the framework of a wider, general economic and agricultural policy. These policies frequently result in conflicting objectives such as:

a) promoting maximum food production to achieve self-sufficiency versus keeping prices for food and agricultural raw materials low;

b) encouraging the production of export commodities versus raising the maximum Government revenues from export taxes;

c) domestic food production versus production of export commodities;

d) devaluing an over-valued currency versus avoiding importing inflation;

e) allocating scarce Government finances for agricultural development versus providing costly food subsidies for the urban sector;

f) terms of domestic trade in favour of the agricultural sector versus domestic terms of trade in favour of the urban and industrial sector.

These conflicts are among the main reasons why farmers' legitimate demands are frequently not met. Moreover, farmers' interests do not always coincide with Government objectives, for example, the Government's aim to achieve food self-sufficiency through increased production has little appeal to farmers unless they benefit from an assured market at remunerative prices ensuring them a higher income. They must also have confidence that policies are based on long-term objectives giving them reasonable security. Moreover, without a basic infrastructure, roads, transport, etc. and adequate input supplies of the right type, available at the right time and at reasonable prices, they cannot realise their production potential.

In Tanzania, the public treats co-operatives as Government agencies. As a result, farmers and members have come to regard co-operatives and unions as an arm of the Government. On the whole, co-operatives in Tanzania have become irrelevant to the poor. Instead of correcting such an impression, employees of co-operatives do in fact encourage it. Consequently, members do not consider co-operatives as their own institutions and have become indifferent and apathetic. The strategies of co-operative promotion in Tanzania have included integrated development projects and the use of 'trained cadre' - highly disciplined, politically-educated members who work with the peasants to catalyse political and economic change. However, the scale of the problems faced is greater. The evaluation of the functioning of co-operatives in Tanzania up to 1975 demonstrates a substantial failure rate including problems of loan overdues, mismanagement, manipulation of rules and structures for the benefit of a few, in addition to problems of complying with bureaucratic regulations. Attitudes to work have neglected goals of productivity and efficiency resulting in mismanagement and corruption.

What remains to be seen in the new co-operative structure is the positive change which should be initiated towards the improvement of the socio-economic conditions of the majority of the Tanzanian people. Political interference which is the result of massive State intervention should be kept to a minimum since these have necessitated some farmers to opt out of farming because of poor remuneration. In maintaining their identity, the co-operatives should have freedom to question Government directives if they find that they are not in the interest of their members or will grossly affect their economic viability.

NOTES AND REFERENCES

1. Marketing Development Bureau (MDB), p.4, R2/85, 1985.

2. The Presidential Special Commission of Enquiry into Co-operative Movement and Marketing Boards. 1966.

3. "Operation Dodoma" was a major planned programme to move all people in rural areas of the Dodoma region into villages.

4. Quoted from MDB, p.17, op. cit. 1985.

5. Ministry of Agriculture. The Agricultural Policy of Tanzania". Dar es Salaam, 1983.

6. Ellis, F. "Agricultural price Policy in Tanzania" in World Development, Vol. 10, pp. 2, 63-83.

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THE CO-OPERATIVE SOCIETIES ACT, 1982 AND THE PROMOTION OF RURAL CO-OPERATIVES IN TANZANIA: A CRITIQUE *

by Hans-H. Münkner **

A developing country's co-operative legislation is not simply a set of rules to regulate some form of business organisation and the legal relationship among citizens. Co-operative law is an expression of government's development policy. Therefore, before commenting on the Co-operative Societies Act of Tanzania, 1982, it is necessary to study the policy and concept underlying the law.

Aims of Government's Policy concerning the Development of Rural Co-operatives

As can be seen from official pronouncements and from relevant sections of the Co-operative Societies Act, 1982 the main aims of government's policy concerning the development of rural co-operatives were:

- to reform rural society by introducing socialist structures in villages, and more particularly by introducing collective farming on communal fields as the predominant form of agricultural production;

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* Paper presented at the annual symposium of the Co-operative College, Moshi on "Promotion and Strengthening of Rural Co-operatives and Co-operative Unions in Tanzania", in 1984.

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- to encourage self-help and self-reliance;
- to improve the living conditions in the villages, and
- to increase agricultural production.

The creation of communal village production units was the country's official blueprint for socialist development (1).

Legislation to Implement Government's Policy

In Tanzania as in most developing countries co-operative law is meant to serve as an instrument for bringing about social and economic change. It translates government's policy into legal norms and provides for machinery to implement this policy. Furthermore, it contains a system of incentives, disincentives and controls in order to ensure that the rural population follows the new norms set by the law. In this regard the co-operative law can be seen as an instrument for legal social engineering (*development law*) (2).

Problems of Implementation

Where such development law is devised by development planners at national level and where new norms are set by the lawmakers for the rural population without consultation and dialogue with the people who are called upon to apply these new norms, problems of implementation arise. If, for various reasons, the new norms are not understood or accepted by the target population, attempts to enforce such legislation through governmental or parastatal agencies usually fail, and, instead of changing the population's norms of behaviour the new legislation remains a "Law on the Books". The people ignore the new rules or only comply with them as much as necessary to avoid sanctions.

Conceptual Problems Reflected in the Law for State-sponsored Co-operation in General and in the Co-operative Societies Act of Tanzania 1982 in Particular

Ambiguity of the Concept of State-Sponsored Co-operation

Already during colonial times state-sponsorship of co-operative development proved to be ambiguous and difficult to implement. Experiences have shown that it is easier to build up and use state-sponsored co-operative structures to centralise control of communal resources than to develop member-supported, member-oriented and member-controlled self-help organisations at village level. The latter is only possible under a deliberate policy of emphasising education, training and advisory services for office bearers and members on the one hand and a determined struggle against the growth of a development bureaucracy and the imposition of tasks and goals on co-operators by outside planners.

Almost everywhere the concept of temporary government sponsorship leading eventually to the creation of self-reliant, autonomous co-operative societies proved to be difficult, if not impossible, to put into practice.

The powers of the Registrar and Commissioner as heads of government co-operative development machinery were steadily increased over the years rather than being gradually reduced as originally planned. This trend to increase government's influence on the involvement in co-operatives, turning state-sponsorship into state-control is continuing, although experiences have shown that over-regulation and over-intervention of government agents in co-operative affairs prevents co-operatives from becoming effective and viable organisations.

Where it is the intention to help the farmers to help themselves by giving incentives and supervising the proper use of such incentives, a good co-operative law has to draw a clear borderline between encouragement of self-help on the one hand and intervention and control from outside preventing the development of self-help on the other.

Socialist Versus Western Concept of Co-operation

The term "co-operative society" has a different meaning, depending on the context in which it is used. The socialist concept of co-operation is fundamentally different from the "Western" concept of co-operation.

Under the socialist concept, co-operative societies are instruments for the implementation of government's policy. Co-operatives are seen as public or semi-public institutions under the guidance and control of the government and of the Party. Plans are made, targets are set and prices are fixed by central planners. The farmers, who are ideally seen as workers in a large-scale collective farm, are called upon to work according to these plans and to receive a fair share of the results of the collective efforts. Co-operative property is considered as a special form of collective property of higher value than individual property.

Experience in Eastern Europe and in other countries following a socialist pattern of co-operation has shown that, only with a disciplined and well-trained membership, with realistic planning and well-organised implementing, supporting and controlling agencies, can collective farming on communal land be practised with some degree of success. However, it is also a well-known fact that in socialist countries individual production on private land often yields higher results than production on communal land.

While the socialist concept of co-operation may be suitable to implement centrally-planned programmes and to bring about planned social and economic change, if necessary through administrative measures and some degree of compulsion, it often fails to mobilise local resources for local development.

Where co-operative projects are planned from above and where certain benefits and assistance are offered to a group of "beneficiaries", usually the members of the target group take advantage of the benefits, but do not actively participate in the programme by committing their own resources to meet the targets of the plan set from outside. They only do what is necessary to qualify for the benefits and to avoid sanctions.

Under the Western concept of co-operation, a co-operative society is seen as a special form of private business organisation with a social content, in which the capital plays not a dominating but a subsidiary, serving role.

Co-operatives are formed voluntarily by people desirous to work together and to pool their resources in order to promote their own economic and social interests. They follow their own plans and goals. Such co-operatives contribute only indirectly to the development of the country by raising the standard of living of their members, by raising production levels and creating new supply and marketing channels.

The Mechanism of Self-Help

Ethno-sociologists have tried to identify the reasons for the lack of active participation by small-scale farmers in state-sponsored, state-planned and state-controlled organisation (3). According to their findings, people are prepared to undertake self-help action only if certain preconditions are met:

- awareness of concrete, pressing needs;
- possibility of deciding to take action and determining themselves the ways and means to fulfil these needs;

- the needs have to be so pressing that they require extraordinary efforts to deal with the unsatisfactory situation, and

- help from outside (e.g. from government) cannot be expected.

Hence, the mechanisms to set self-help into motion require:

- Consciousness of need;

- own interpretation of need;

- self-determination of goals for action to satisfy own needs;

- self-motivation as opposed to motivation from outside.

Active participation in self-help activities can only be expected if it leads to satisfaction of the felt needs and thereby motivates the persons concerned to participate further. There is thus a chain reaction:

Participation → rewards → motivation for further participation.

Participation can be interpreted in various ways:

- formal or passive participation in activities planned by others (statistical aspect);

- active participation in planning, decision-making and implementation (quality aspect).

There is a fundamental difference between formal participation to qualify for benefits, and self-motivated, active participation leading to self-help action and resource commitment.

If it is the aim of government development policy to encourage self-motivated active participation in rural co-operatives, the mechanics of self-help as described earlier cannot be ignored in the Co-operative Societies Act.

The Co-operative Societies Act, 1982 - a Critique

The new Co-operative Societies Act, 1982 replaces the repealed Co-operative Societies Act, 1968, which in turn is an enactment based on the classical "British Indian" pattern of co-operation, i.e. a law for state-sponsored co-operative societies developed by the British colonial government in India in 1904 and introduced into many countries of Asia and Africa around 1930 (4).

The new Co-operative Societies Act also replaces the Villages and Ujamaa Villages (Registration, Designation and Administration) Act, 1975, repealed by section 195 (c) of the Local Government (District Authorities) Act, 1982 in so far as it referred to matters related to co-operative societies. In fact, some provisions and ideas contained in the new Co-operative Societies Act were taken from the Villages and Ujamaa Villages (Registration, Designation and Administration) Act, 1975 (e.g. sections 22 - 30).

Combination of Sections from Different Sources

One of the characteristic features of the new Co-operative Societies Act, 1982 is that it constitutes a combination of sections taken from different sources. For instance, several sections were taken unchanged or in a modified form from the Co-operative Societies Act of Zambia (No. 67 of 1970), e.g. sections 7 - 11 and 31 - 60.

Some provisions were framed in line with recommendations made during an International Seminar on Comparative Co-operative Law in Eastern, Central and Southern African Countries (5) (e.g. sections 13 (2), 20, 115, 116) while still others were based on recommendations made by the Ministry of Industries to accommodate industrial co-operatives (e.g. sections 2 "Industrial Society", 29 (2) (e), 63, 64 (2) and 103). The main body of the provisions dealing with the internal organisation and working of co-operatives, legal technical matters like registration of charges etc., and the powers of inspection, supervision and control of government over registered co-operative societies were taken almost unchanged from the Co-operative Societies Act, 1968.

Constitution of New Co-operatives or Re-Establishment of the Old Co-operatives?

The new law is a compromise between advocates of the re-establishment of co-operative societies as they existed before 1975, which were dissolved in 1976 and the assets of which were taken over by different governmental, parastatal and Party agencies on the one hand (6) and advocates of establishing new societies on the other.

The clear option of the Party which, according to the Constitution of 1977 (Article 3), has supremacy over all institutions and all political and governmental activities in Tanzania, is in favour of the establishment of new types of co-operatives and of new co-operative structures which are not private business organisations and instruments for socialist construction, which have as their main purpose the building of socialism in the country.

According to official statements made during the parliamentary debates on the new Co-operative Societies Act, 1982, the newly formed societies were to be based on villages and expected to play a crucial role to ensure increased agricultural production. The new co-operatives would not act as marketing organs as was the case with the previous societies, but rather be the organs of fostering the development of co-operative farming and improving the conditions of their members. They would conduct their affairs under the guidance and supervision of the Party.

The issue is confused by the fact that it is the officially stated policy to re-establish the regional co-operative unions but not their base at the village level, i.e. the primary co-operatives as they existed earlier. This may not be possible, because with the newly-established co-operatives at the village level the re-established regional or district unions will be different from the ones that were dissolved in 1976.

The political discussions about re-establishing the old co-operatives or establishing new ones has been decided in favour of establishing new co-operative societies which will be special types of organisations for the implementation of the policy of socialism and self-reliance (c.f. long title of the Co-operative Societies Act of 1982). This option is underlined in several sections of the Co-operative Societies Act, 1982, e.g.

- Section 4

  "... the Society shall be operated democratically on the basis of the principles, methods and procedures of co-operation. It shall thus strive in accordance with its democratic, socialist and co-operative outlook -

  (a) to accelerate the building of socialism by bringing about socialist development both in rural and urban areas;

  (b) to foster the development of co-operative farming in rural areas ...". (See also sections 18 (2) (e) and 29 (1) (i) Co-operative Societies Act, 1982.

- Section 7

  "The Minister shall take such measures as he deems necessary for the encouragement ... of the organisation of co-operative societies as a means of .....

(b) contributing to the economy an increased measure of socialist ownership and democratic control of economic activities ..."

On the other hand, a large number of provisions of the Co-operative Societies Act, 1982 are clearly based on the model of a co-operative society as a private self-help organisation, i.e. a non-exploitative group activity under the leadership and control of its members to take over such activities in the economy which earlier were misused to exploit small producers, i.e.

- supply with inputs (sections 18 (2) (b), 29 (2) (b) Co-operative Societies Act, 1982);

- credit (section 7 (c) Co-operative Societies Act, 1982);

- marketing (section 7 (d), 27 (1) (f), 29 (3) Co-operative Societies Act, 1982);

- transport (section 18 (2) (h) (i), 29 (2) (a) Co-operative Societies Act, 1982);

- wholesaling (section 18 (2) (a), (3) Co-operative Societies Act, 1982).

The definition of the term "Co-operative Society" in section 2 of the Co-operative Societies Act, 1982, which corresponds to the definition given in para 12 (1) (a) of Recommendation No. 127 of the International Labour conference (7) describes the Co-operative Society as:

> "an association of persons who have voluntarily joined together for the purpose of achieving a common end through the formation of a democratically-controlled organisation and who make equitable contributions to the capital, if any, required for the formation of such an organisation and who accept the risks and the

> benefits of the undertaking in which they actively participate".

According to section 8 (a) Co-operative Societies Act, 1982 the Minister shall take, authorise or approve such measures as he deems necessary to:

> "assist the organisation of co-operative societies among persons or groups of persons who desire to provide themselves with, or to market commodities or services or both, on a co-operative self-help basis".

Furthermore, the Minister shall disseminate information related to co-operative development, so as to:

> "... promote interest in and understanding of co-operative principles and practices with the view to the encouragement of the organisation of co-operative societies based on self-help". (Section 9, Co-operative Societies Act, 1982).

In section 61 (1) a society which may be registered under the Co-operative Societies Act, 1982 is defined as one:

> "... which has as its objects the promotion of the economic and social interests of its members by means of a common undertaking based upon mutual aid and which conforms to the co-operative principles ...".

This mix of legal provisions reflecting two different concepts of co-operative societies in one and the same law makes it difficult to come to a clear and consistent piece of legislation.

<u>General Law for all Types of Co-operatives with Special Provisions for Special Categories of Societies</u>

There is still another conflict of ideas contained in the new Co-operative Societies Act, 1982. The new law is meant to cover all types of co-operatives both in rural and urban areas including agricultural multipurpose co-operatives (societies for rural development, sections 22 - 30), industrial co-operatives (sections 31 - 40), credit societies (sections 41 - 54) and consumer societies (sections 55 - 60).

While there are some special provisions for each category of societies (following the example of the Co-operative Societies Act of Zambia, 1970), the main body of the law (Parts I - IV and Parts VI - XVIII) is applicable to all these societies with a few exceptions, Part V contains provisions of a general nature and special provisions related to the different types of societies. Sections 14 - 21 under the heading "Formation and Organisation of Societies" purport to be general provisions. Yet, in two essential provisions regulating the vertical structure of the co-operative movement in Tanzania (sections 15 and 18 (2) the attention of the law-makers was focused mainly on rural development societies or agricultural multipurpose co-operatives, which certainly will constitute the bulk of the societies, while two general provisions on the vertical structure of the co-operative movement (sections 14 and 16) stand side by side with these provisions having an agricultural bias, which causes problems of interpretation. Had sections 15 and 18 (2) been placed under the special provisions for rural development societies, this confusion could have been avoided.

With regard to co-operative activities in villages, the new law follows to a large extent the model of the repealed Villages, and Ujamaa Villages (Registration, Designation and Administration) Act, 1975, e.g. sections 22, 23 and 24 Co-operative Societies Act, 1982.

Section 24 (1) of the Co-operative Societies Act, 1982 stipulating automatic membership of all adult persons residing or working in a village is especially a contradiction to the definition of the term "Co-operative Society" in section 2 of the Act, where voluntary membership is quoted as a characteristic feature of co-operative societies.

When studying the Co-operative Societies Act, 1982, the law gives the impression that some new basic provisions were added (in Parts II, III and V) to an existing text without adjustment of the entire text to the newly added parts.

The unco-ordinated parallelism of general and special provisions and of provisions related to state-controlled and Party-guided co-operatives of the socialist type on the one hand, and of provisions made for the private enterprise type of co-operatives, based on their members' initiative, self-help and expectation of tangible benefits for the members on the other, shows that the law is a compromise between two different schools of thought - a compromise, however, which was laid down in writing under time pressure before the bargaining process was completed and before a final agreement was reached between the two camps.

Stringent Government Powers

Finally, the new law gives government very stringent powers of supervision, direct intervention and control over co-operative societies, for instance by empowering the Registrar/Commissioner to require primary societies to form or join co-operative unions (section 19), to amend by-laws of registered societies (section 86), to dissolve the committee of co-operative societies (section 106) and to appoint a caretaker committee (section 107), to direct societies how to invest their funds (section 114 (2); to conduct enquiries and inspections (sections 133, 134), to order compulsory amalgamation or division (sections 138, 140) and to punish societies which do not comply with his orders (section 169). Such powers can easily lead to over-intervention by the Registrar/Commissioner and his staff which may bring about some degree of passive participation, but normally do not encourage active participation and voluntary involvement of the members (8).

Conclusions and Recommendations

The main criticism of the Co-operative Societies Act, 1982 is that it lacks a clear and consistent conceptual basis and was drafted under time pressure.

It needs further study and dialogue with the farmers, to determine whether it is possible to impose a nation-wide blueprint of socialist structures in villages and at the same time to re-establish co-operative unions and to encourage self-help and self-reliance.

Given the limited resources of government available to finance village reforms, it will inevitably place more emphasis than hitherto on the encouragement of self-help and to adopt more flexible patterns for co-operative development based on the needs of the co-operators. In order to mobilise local resources for local development the co-operative law will have to be brought into line with the rules referred to earlier in this paper as the mechanics of self-help, with means to:

- stress voluntary membership of people willing to co-operate in pursuit of their own interest instead of automatic membership of all adult villagers;

- allow some degree of micro-planning and self-determination of objectives, priorities and action plans by the members themselves;

- encourage and allow vertical integration of co-operatives in line with the needs and aspirations of the member co-operatives (e.g. allow specialised unions and federations if the co-operators so wish) rather than insist on a uniform nationwide structure of multipurpose secondary societies and only one apex organisation.

The aim to revive the co-operative unions is not likely to be achieved without reviving their basis, namely the village co-operatives. For this purpose the provisions of the Act and Rules referring to rural co-operatives and the model by-laws for rural co-operative societies, which still follow basically the same pattern as the repealed Villages and Ujamaa Villages (Registration, Designation and Administration) Act, 1975 (9), have to be re-examined.

The best way to bring about a co-operative law which is at the same time based on a clear and consistent concept, presented in a logical order and written in a language which the ordinary citizen can understand, is to apply a method of law-making referred to as "Participative Law-making".

Participative law-making means to give the citizens for whom the law is devised the chance to express their views at various stages of the law-making process:

a) on the concept designed for the law, by publishing, circulating and discussing a statement of objects and reasons for the new law with the intention of incorporating ideas emerging from this public discussion in the final version of the statement.

b) on the draft of the law prepared by legal draftsmen but also published, circulated and discussed in district, regional and national workshops so as to allow the citizens and co-operative leaders to familiarise themselves with the planned new legislation governing co-operatives, to air their views and to adjust the proposed legal norms to their own level of understanding and to their needs.

The co-operative movement, represented by its apex organisation should set up its own co-operative law reform committee with professionally-qualified members to monitor the working of the new co-operative law and to advise the law-makers from time to time on legal matters that need to be re-examined or revised.

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CURRENT DEBATES ON CO-OPERATION IN TANZANIA

by Peter Yeo *

Fundamental changes are being made in the co-operatives in Tanzania. The issues thrown up by these changes are relevant to co-operatives in many countries. This paper results from taking part during August 1985 in vigorous discussions at a seminar for co-operative field workers in the Co-operative College in Moshi and also during informal meetings in several primary societies in Rombo District.

At the time of independence, well-established co-operatives were marketing export crops in the richer parts of the country. In 1963, the National Agricultural Products Board was created to handle food crops for domestic consumption and co-operatives were made sole agents for buying at village level. The result was mushroom growth of co-operatives in areas where they had never previously flourished. They were used to distribute Government services to farmers. Growth outstripped the ability of the members to control their leaders and, in 1966, a presidential Special Commission of Enquiry reported widespread dissatisfaction with co-operatives.

The Government's reaction was to tighten their control of co-operatives. Measures included the 1968 Co-operative Societies Act, which strengthened the power of the Registrar, and the creation of a Unified Co-operative Service, from which managers were seconded to the secondary co-operatives. At the same time, there was continued development of innovative, multimedia field education for members and staff of co-operatives.

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The results were mixed. Many of the co-operatives which had started in the 1960s remained dependent on the Government. The gap between them and the longer-established co-operatives widened. Then, in 1975, the Villages and Ujamaa Villages Act made each village into a single legal unit responsible for both the administrative functions of local government and the commercial functions hitherto carried out by co-operatives. The rural primary co-operatives ceased to exist and, in 1976, the district and regional co-operative unions were also abolished.

In the years which followed, villages were supposed to sell direct to statutory crop authorities. Unfortunately, most crop authorities performed badly in marketing the farmers' output and even worse in supplying inputs to the farmers. There was popular pressure to bring back the district and regional unions.

In 1982, a new Co-operative Societies Act was passed. At village level, local government functions were partially separated from commercial functions and a Co-operative Development Committee was given responsibility for the latter. The creation of district and regional co-operative unions was again authorised.

At the time of writing, the revived co-operative unions are starting to operate. Generally, they have been able to regain possession of immovable capital assets such as buildings. Often, they have problems recovering movable assets and accounting records from the liquidators, who fortunately never completed their liquidation proceedings. If co-operatives recover money, it is likely to be at face value with no allowance for inflation.

The one asset they are recovering at enhanced value is the goodwill of their members. It seems that the failures of the years before 1976 have been partly forgotten. The dominant memory is of the successes. The restoration of the unions is greeted as the return of a golden age.

CURRENT DEBATES

Voluntary Membership

The most important of the current debates is concerned with the principle of voluntary membership. Under the 1975 Act, everybody resident in a village was automatically a member. The Act passed in 1982 continued this departure from the generally accepted principles of co-operation by retaining automatic membership.

In March 1985, the words "shall be a member" were amended so that now every resident "may be a member" but, as yet, the amendment has not been widely publicised and nor have the consequent amendments to other clauses been made.

If co-operatives are the only channel for marketing a crop, membership is not fully voluntary for those who depend for their living on growing it. In recent times, there has been a "parallel market" in some commodities and there is some move towards legalising some private enterprise in marketing. To the extent that there are alternative marketing channels, voluntary membership of co-operatives could become real.

Some oppose these developments on the grounds that they will create wasteful competition and widen the gap between those who can exploit the free market and those who cannot. Others welcome them on the grounds that members are more likely to behave responsibly towards a co-operative they freely choose to join. The knowledge that unless members receive good service they will take their business elsewhere can encourage co-operatives to be efficient.

Single-Village Co-operatives

As the law now stands, several villages are allowed to join together to form a single co-operative and societies have been organised on this basis. However, there are powerful voices in favour of going back to the 1975 rule that each village should have its own co-operative. It is obviously true that many villages are at present unable to generate enough business to pay the salary of a competent manager. In these cases, a single-village co-operative can be said not to be viable. However, some oppose calling a village, in which people have to make the only living available to them, "unviable".

There is a regrettable tendency to treat this as a question which must be settled uniformly for the whole country. Co-operatives usually work best if the members of each one decide on the structure that suits their particular circumstances. However, in Tanzania as elsewhere, co-operative diversity makes some politicians and bureaucrats uneasy. It is generally accepted that the decision to abolish ALL co-operative unions in 1976 was a mistake. It is not so generally accepted that such top-down blanket decisions would conflict with co-operative democracy, even if they were economically justified.

Status of the Co-operative Union of Tanzania (CUT)

During the period 1976 to 1982, the national-level body representing co-operatives was the Union of Co-operative Societies (UCS). This was a "mass organisation" allied to the party in the same way as the women's organisation (UWT) and the youth league.

The 1982 Act revives CUT as the apex body for all co-operatives. It provides for the government-appointed Commissioner for Co-operatives to hand over important powers to CUT and obliges him to consult with its Secretary General on some other matters. The fact that the local co-operative unions are once again available as a link between the village-level primaries and the centre could make it easier for CUT to be a democratic federal body controlled by its member co-operatives. On the other hand, it could be controlled by the party as was the UCS.

Compromises are possible between these two extremes. It is already decided that the Government is going to hand some powers to CUT. The discussion is about the balance between party control and co-operative control of CUT.

Co-operative Groups

No co-operative society other than a rural co-operative society is allowed to operate within a village but people with special skills resident in the village may form themselves into "co-operative groups" within the main co-operative. For example, groups of women who have been running shops under the auspices of UWT are being encouraged to put themselves under the umbrella of their village co-operative. So are church-based handicraft groups.

Such affiliation has advantages for the groups. If they have an income, they could benefit from sharing the favoured tax status of the co-operative. The co-operative has an obligation to guarantee loans for them. Though the groups must accept the "general guidance" of the village Co-operative Development Committee, they are entitled to representation on the committee.

Affiliation may also have its disadvantages. In parts of the country, women are not in practice allowed to be members of the co-operative in which they are being asked to merge their group. Also UWT, which represents the special interests of women, would lose income if the groups it initiated stopped paying UWT subscriptions when they became part of the co-operative. In the case of church groups, the co-operatives may not be able to match the helpful supervision, and the effective communication with the towns, which some churches have been providing for their groups.

The co-operative societies rules require each group to maintain its own funds but there must be a danger that the assets built up by a small group will be frittered away by the losses of the larger co-operative. Even if money is not lost in this way, member's loyalty may be. People may not feel so committed to a large co-operative as they were to their small group. The way in which groups are being encouraged to merge in order to get a loan fosters dependence rather than self-reliance.

The balance of opinion seems to be in favour of merging the groups in the co-operatives but this may be because the case against has not been adequately considered.

The Future

There is no easy future for the revived co-operatives. The problems that defeated the Crop Authorities have not all vanished. Any marketing organisation would find life difficult in the squeeze between final prices dictated by world markets and producer prices which must cover costs of production. Nobody can market without spare parts and fuel for vehicles. The co-operatives are sometimes expected to market quantities which are too small to be economic. Socially-useful pricing policies, designed to help poorer regions, sometimes make it impossible to cover the costs of marketing.

As co-operatives meet these problems, the attitude of members will be crucial and here there are grounds for optimism. The co-operative unions have been revived as a response to popular pressure. This is more healthy than imposition from above. The vigorous and well-informed debate in the rural societies I visited was very encouraging. People spoke openly in criticism of past and present Government policies but the discussion was constructive and good tempered. Crop authorities were criticised for not listening to the farmers and the members mean to make their voice heard in the new co-operatives. Nobody should undervalue the strength which this type of political awareness gives the Tanzanian co-operatives.

RURAL CREDIT AND SAVINGS IN THE THIRD WORLD: A REVIEW OF THE ISSUES *

by Stephen Devereux **

The rural poor in developing countries typically lack the means to generate the increases in income necessary to improve their standard of living. Poverty constrains their ability to save, and makes banks unwilling to lend to them. Moneylenders often exploit their monopoly power over the poor, trapping them in 'debt bondage' from which many never escape.

Oxfam's experience in Third World countries has led them to conclude that the popular perception of poor people as risky and uncreditworthy borrowers may be unfair and misguided. Given the opportunity, poor people can make as productive use of credit resources as wealthier borrowers.

The next section of this article discusses the economy of the poor rural household in very brief and general terms. The usual sources of credit available to those households, both formal and informal, are also discussed briefly. The bulk of the paper examines the problems faced by the rural poor in obtaining credit in somewhat greater depth, with the help of a number of case studies from Oxfam's own experience, mainly in India and Africa.

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* This article is adapted from "A Manual of Savings and Credit for the Poor of Developing Countries" an Oxfam publication by Stephen Devereux and Henry Pares with John Best (1987)

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THE POOR RURAL HOUSEHOLD AND RURAL FINANCIAL INSTITUTIONS

The Household Economy Tree. In Western economies we are used to thinking of households and firms as separate entities with quite different activities and objectives. Households consume what firms produce, and while households may be motivated by a variety of ambitions, firms aim invariably at profit maximisation. These generalisations do not apply to poor households in the Third World, where production and consumption activities are often impossible to separate, and where the priority is not 'profit maximisation', but simply survival.

It is useful to think of the poor rural household as a tree, which draws up water through its roots in order to feed its branches. The water represents money or assets; the roots are the various sources from which cash and assets can be obtained; while the branches represent the competing demands for any money which enters the household.

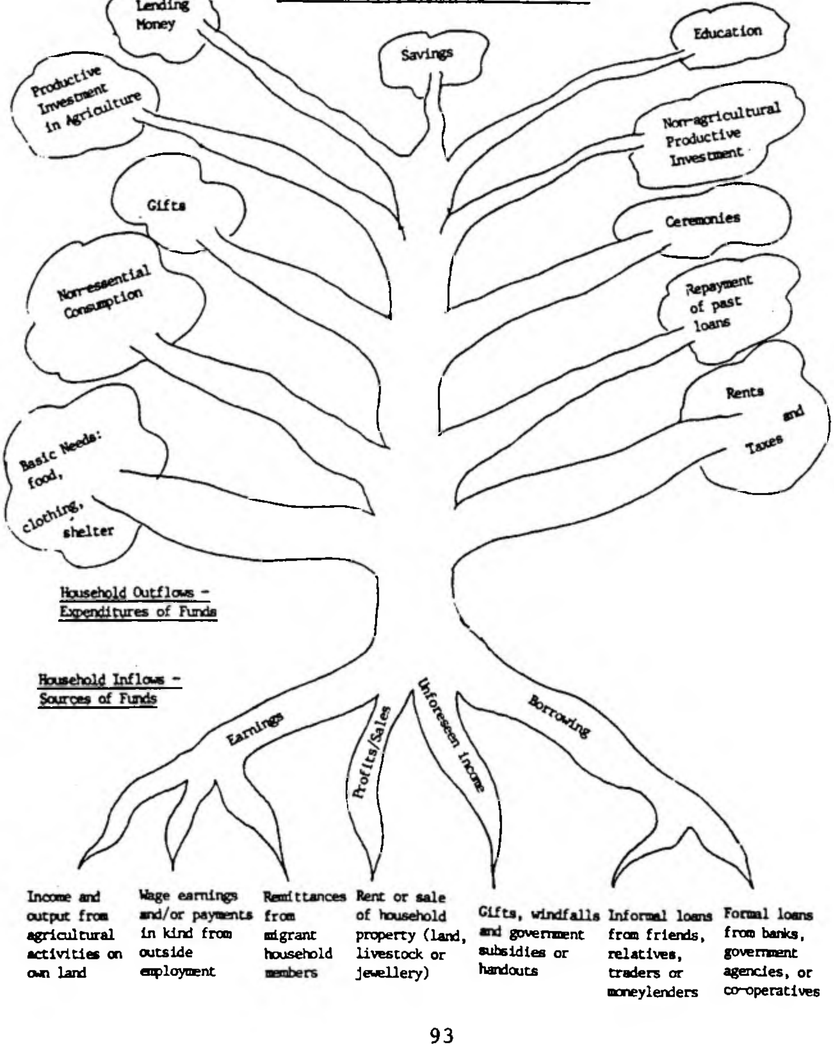
The lower branches, representing basic needs such as food and shelter, must be satisfied first, closely followed by other unavoidable expenses like rents and taxes. Social obligations such as weddings, dowries, ceremonies and gifts also have high priority in many societies. The highest branches are reserved for less pressing financial needs - education, investment in agriculture or business, and consumption of 'non-essentials' like entertainment, cigarettes, radios and so on.

As far as credit and savings are concerned, the 'household economy tree' illustrates two important and related points:

i) 'Productive investment in agriculture' is a much lower priority for the poor small farmer than it is for a larger and wealthier farmer - yet this is usually the only purpose for which banks are willing to extend loans to farmers.

Figure 1

The Household Economy as a Tree



ii) For the small farmer, distinctions between 'consumption' and 'production' credit, or between agricultural and non-agricultural investment, are often meaningless in practice. This makes it difficult for lenders to ensure that loans are used in a manner acceptable to them, and is one reason explaining their reluctance to lend to poor farmers.

Credit Needs and Credit Sources

If a household's expenses exceed its income in any period, then it will need either to draw on its own savings from earlier periods, or to make use of credit from some external source. The poorer the household, the more likely it is that any unusually high expenditure or low income will force it to seek financial help from an outside supplier of credit.

It is convenient to distinguish between two categories of credit suppliers in rural areas - formal and informal. Formal sources of credit include commercial and state banks, post offices and building societies, and co-operative societies. Informal credit sources include friends and relatives, landlords, professional moneylenders, and village savings and credit groups. Each source has its advantages and disadvantages.

Formal credit suppliers are typically highly efficient in their function of 'financial intermediation' - that is, accepting savings from some clients (depositors) and lending these funds to other clients (borrowers). The interest rate banks charge to borrowers for this service is greater than that paid to savers, both to cover lender costs and to generate a profit.

Unfortunately, the rural poor have great difficulty in meeting their credit needs through formal lending institutions. As will be seen, commercial banks tend to reject applications for loans from poor borrowers who lack collateral, whose loans are too small to be very profitable, and who may not use credit for 'income generating purposes'. The result is that many groups of people in rural areas, such as small farmers, landless labourers, and small artisans and traders, are virtually excluded from commercial credit suppliers. Generally speaking, commercial banks dislike working in rural areas altogether, preferring the greater profits and reduced discomfort of operating in towns.

State-sponsored financial institutions, which tend to be set up by governments in response to the failure of commercial banks to meet rural credit needs adequately, pose a different set of problems to small borrowers. Firstly, they tend to specialise in extending loans rather than in taking deposits, so that their finances are limited. Secondly, they are often required to lend at subsidised interest rates (because it is assumed that bank credit is too expensive for the poor), but this merely reinforces the bias against those excluded from commercial lenders.

In summary, while commercial banks often have surprisingly little effect on rural financial markets, state-sponsored credit institutions have an impact which is significant but, by and large, negative or counterproductive. by concentrating on the provision of credit at discounted rates of interest, they make little contribution to the mobilisation of rural savings, and may even discourage informal mechanisms such as co-operative savings and credit groups.

On the whole, then, it appears that existing financial institutions do not serve the needs of the rural poor effectively or adequately. In the main section of this article, Oxfam's wide range of experience with credit programmes in the Third World is drawn on to highlight some of the problems touched on above in more detail, and to indicate ways of overcoming these obstacles which have been successfully tried in specific cases.

PROBLEMS OF CREDIT AND SAVINGS FOR THE RURAL POOR

In the Oxfam credit and savings manual, several categories of problems with the provision of credit programmes for the rural poor were identified and discussed, including access to credit, creditworthiness, savings, programme design, and dependency. The issues raised in each of these categories will be summarised below.

Access to Credit

Inconvenience of formal lending institutions. Small farmers are often excluded from formal credit and other markets not just because they are poor, but also because of physical isolation - the nearest bank may be several miles away, accessible only to those who can afford the transport costs. For example, a survey commissioned by Oxfam in Maharashtra, India, found that applicants for bank loans typically "had to go ten to twelve times to the offices at distances of two to 55 kms". Processing of loan requests could take up to sixteen months, and if successful, the farmer sometimes had to mortgage his house, bribe officials, and leave 25 percent of the loan as margin money with the bank.

By contrast, local moneylenders are found in virtually every village in India. They open earlier and close later than banks; they require little if any tedious paperwork; they often do not demand collateral; and they attend to requests promptly, without retaining a margin as deposit or specifying the purpose of the loan. In short, 'red tape', delays and conditions on loan use are much reduced (1).

For these reasons, many small rural borrowers prefer dealing with village moneylenders than with formal institutions. Although moneylenders charge much higher rates of interest, they tend to provide a more convenient, flexible and personal service. Furthermore, if the hidden costs of formal sector credit are taken into account - travel, bribes, paperwork, loss of earnings due to absence from work - then the moneylender's high charges are less exorbitant than they appear.

Disadvantages of illiteracy and gender. Commercial banks tend to be prejudiced against applicants who are illiterate, because this makes completion of loan forms tedious and awkward, and probably also because uneducated people are viewed as 'ignorant' and therefore not creditworthy. Women are also discriminated against. In many male-dominated societies (i.e. everywhere!) banks often refuse to deal with women at all.

A tragic case occurred during a drought in Nyasaland (now Malawi) in 1949, when banks refused to provide loans to women whose husbands had left the village in search of food. The result was a famine whose effects were concentrated on women and children in female-headed households.

There are ways around both forms of discrimination, however. A case in point is that of the Self-Employed Women's Co-operative of Ahmedabad, India (or SEWA). Recognising the difficulties that women have in obtaining service from conventional banks, SEWA started its own co-operative bank in 1973.

In order to overcome the problem of illiteracy among its clients, the bank's savings books each include a photograph of the client holding her own account number. Bank staff also explain verbally procedures for depositing and withdrawing funds to those who cannot read or calculate their balances.

Loan legislation which deters lenders. Governments have tried several methods of channelling more credit to the poorest sections of society, including legislating low interest rates or loan quota restrictions. Unfortunately, the effect of these well-intentioned efforts is frequently minimal at best and counter-productive at worst. If banks see poor borrowers as their riskiest clients (rightly or wrongly) then they will want to charge them the highest interest rates. Forcing banks to charge very low rates of interest will reduce their incentive to lend to the poor.

Similarly, imposing restrictions on loan sizes, or requiring banks to make a certain proportion of their loans in rural areas, has the intention of making more bank credit available to the poor, but rarely achieves this in practice. Bank managers who view poor applicants as potentially loss-making will see to it that their loan requests are processed extremely slowly; while loan quotas can be circumvented by making a number of small loans to a single large borrower, rather than to many poor borrowers.

The real problem facing the poor borrower is that of getting access to sufficient credit when needed - not whether that credit is subsidised or not. If government legislation makes banks even less willing to lend to the poor than they already are, then those borrowers will be left with no alternative to the village moneylender, who may well exploit his monopoly power over them.

Creditworthiness

Collateral requirements. It is standard practice for lenders to demand an asset or deposit as security for loans made, and this represents a major barrier for poor borrowers who lack the necessary collateral. This lack of assets often forces these people to rely for their financial needs on moneylenders, whose collateral requirements may be more flexible, but who may also exploit their clients' dependence on them by charging high interest rates.

Moneylenders have several advantages over formal financial institutions, because of the personal knowledge of borrowers and their activities which living in the same village confers, and this is why they are able to evaluate applications individually, without demanding collateral. This observation was confirmed by a survey of informal moneylenders in India, by Timberg and Aiyar: "Informal financial agencies, by and large, concern themselves with the overall credit standing of the borrowing party rather the specific enterprise or project for which credit is taken ..... We asked one broker how he evaluates 'new borrowers' and were told that he never took them; all his clients were children and grandchildren of businessmen with whom he and his father and grandfather had done business" (2).

One way that aid or development agencies can avoid the problem of lack of collateral, in getting institutional credit to those they are trying to help, is by placing guarantees or deposits with banks on the borrower's behalf. Oxfam did this for small farmers in Andhra Pradesh, India, whose crops were swept away after a cyclone in 1977. In this instance Oxfam placed 'incentive deposits' with several banks, and persuaded them to lend up to four times this amount to farmers who would otherwise have been denied formal credit.

Another possibility is to find an alternative to conventional collateral which lenders will find acceptable as a substitute. One such solution was adopted by an innovative bank which was established in Bangladesh in 1976, and which aimed to lend to precisely those people whose lack of collateral assets usually excludes them from formal credit markets. The Grameen Bank lends to individuals who are formed into groups of five, and who agree to stand security for each other's loans, instead of putting up collateral as individual borrowers.

The success of the Grameen Bank has so far been staggering. Within its first ten years, it had acquired a million clients, all from the poorer population groups of rural Bangladesh. Its repayment record is an incredibly high 98 percent, compared with the 50 percent to 60 percent achieved by normal commercial banks. Clearly, then, group pressure and the attraction of continued access to bank credit are strong enough to reduce defaults, and this bypasses the need for collateral as security on loans(3).

Income instability of the rural poor. It is not just because they lack collateral that the rural poor appear to be an unattractive prospect for formal lenders. The irregularity of their income and expenditure patterns means that repayment schedules based on regular (say, monthly) payments may be disrupted by any unforeseen expense or drop in income. But many banks lack the foresight to accept deviations from standard procedures, seeing an inability to keep to repayment schedules as proof of the uncreditworthiness of the rural poor.

Banks which are inflexible with regard to unintentional defaults help neither themselves nor the defaulting borrower. Moneylenders tend to take a 'longer view' of such problems, accepting that crops will fail from time-to-time, and allowing borrowers to put right in the long-term what they cannot avoid in the short-term.

One reason for income instability in rural areas is the fact that agricultural production is seasonal. Seasonality means that farmers often require working capital loans to help them through the lean period between harvests. A popular solution is village grain banks or 'revolving crop loans', which Oxfam has supported from Burkina Faso in Africa to Gujarat in India. Members of grain banks borrow from a store of grain before the harvest, and replace what they have taken afterwards, adding an 'interest payment' to ensure that the stock is not depleted over time.

Climatic variability adds to the riskiness of agricultural production, which is a highly unstable occupation at the best of times. A small farmer who borrows for working capital purposes, or to purchase new inputs, and then suffers a setback due to an unpredictable drought or flood, say, will probably be worse off than before - having lost his output, but gained a debt.

For example, heavy monsoon rains in 1983 devastated crops in Maharashtra, India. Crop loans were made to farmers to help them start up again, but a late monsoon which delayed planting of the next crop meant that some of these were not repaid in time. To stop banks foreclosing on these debts, Oxfam granted temporary bridging loans to the farmers, almost all of which were repaid.

Defaults. Credit introduced into a community from outside may be treated less seriously than finance which is locally generated - less responsibility is felt for a stranger's savings than for a friend or relative's. Wilful default is also more likely where credit is provided by government or foreign aid agencies, if these sources are seen as 'soft lenders', than when a loan is obtained from a commercial bank.

Various deterrents to defaulters can be built into credit schemes, apart from the obvious demand by commercial banks for collateral. In the case of the Grameen Bank, as discussed above, group pressure provides the incentive to clients to repay, since if they fail to do so all other members of their borrower group are denied further loans until the debt has been cleared.

Where some or all of the credit is generated within the local community itself, the social pressure to repay is all the greater. The Working Women's Forum, based in the southern states of India, lends to women who are members of Grameen-type borrower groups. To join, each member has to pay in a small sum every month as a saving or deposit against borrowing. Loans are given at low rates of interest (4 - 7 percent), but if an individual defaults, her entire group loses eligibility for this advantageous rate.

In any event, it seems that poor borrowers have acquired a reputation for uncreditworthiness which is generally undeserved. All the available evidence does not support the popular belief that small, poor borrowers in rural areas are more likely to default on their loans than are larger, wealthier borrowers. After examining the data for India, Avadhani concluded: "A larger proportion of farmers repaid loans among marginal, small and medium farmers than among large farmers, both in 1961-62 and 1971-72 ..... This would imply that repayment performance of the large cultivators was generally bad in both periods ..... rich farmers had defaulted more than smaller cultivators in their repayment performance" (4).

Savings

Indigenous savings systems. It is important for development agencies or the state to be aware of 'indigenous' or 'traditional' savings and credit systems when estimating a community's credit needs, for two reasons. Firstly, it is clearly preferable to modify or adapt existing financial mechanisms than to introduce new ones from outside. Secondly, a new system may displace existing ones, increasing dependence on outside sources of funds and perhaps destroying institutions which fulfil social as well as economic functions.

An example of the type of cyclical savings and credit groups which are found throughout the Third World is the 'njangi' or 'djanggi' of Cameroon. Each member of a 'njangi' group makes regular contributions to the 'pot', which is then loaned out to a different member each time, according to a rota devised by the group itself. In effect, those who receive the pot towards the start of a cycle receive a loan which they repay in instalments, while those who collect the pot towards the end are using the system as a form of saving.

The 'njangi' system is a rotating credit and savings club which requires neither collateral nor literacy. The group ensures that loans are repaid, and apart from mobilising local savings resources, performs many social and educational functions too. Similar systems are found all over Africa, South Asia and Latin America - including 'arisans' in Indonesia and 'chit funds' in India (5).

Apparent inadequacy of resources. Mobilising the latent savings potential of a community is an important component of any programme which aims to be independent and self-sustaining in the long run. Too often, however, the poor are assumed to lack the means to save significant amounts, with the result that large sums of capital are injected into the community, to the point where people sometimes become hopelessly indebted.

It is probably true that the very poor are unlikely to save while there are more pressing calls on their limited resources. But this does not mean that they have no capacity for saving at all. The problem is that the sums they can save may be so small and so irregular that banks are not interested in opening deposit accounts for them, so that these funds are simply frittered away. Suppliers of credit should at least attempt to mobilise what saving potential does exist in rural areas, as well as merely issuing loans. The Grameen Bank of Bangladesh and the Working Women's Forum of south India require their members to deposit at least a nominal amount regularly, in order to promote the savings habit.

Programme Design

Conditionality. Lending institutions tend to specify the use for which they issue loans, in order, in their view, to reduce default risks. In some cases, loans are made 'in kind' - fertiliser or seed is given to the borrower directly, instead of cash. This approach, intended to prevent loans being diverted to 'non-productive' uses, assumes rather paternalistically that the lender knows better than the borrower how a loan should be spent.

It is of course desirable that credit is invested in activities which raise the borrower's income and generates the necessary repayment capacity. However, it is quite possible that a loan which is apparently wasted on 'non-productive' uses such as consumption will improve the borrower's financial position indirectly. A case in point is the 'liberation loans' provided through Oxfam to the fishermen of Kottar, in Tamil Nadu, India, as described in an Oxfam project brief:

"The fishermen are poor, their earnings are uncertain, they have no security, and only a few have their own nets and boats. They have to borrow from local merchant moneylenders in order to buy a net or a catamaran with the condition that they must sell their catch to the merchant who financed them and who pays considerably below the market price of the fish. Loans can carry up to 100 percent interest, and when the fishermen need money to buy new equipment, for a marriage or even for food in the lean season, they are obliged to borrow further. Thus the fishermen are caught in a net of poverty and are exploited by the merchants to whom they are constantly in debt".

In order to end the fishermen's dependence on the merchant moneylenders, the Kottar Social Services Society encouraged the formation of co-operatives to act as marketing outlets and savings banks - but membership was conditional on the fishermen being free of debts! After Oxfam had placed a deposit as security with a local bank, it provided loans to the fishermen at moderate interest rates so that they could pay off the moneylenders and sell their catches on the open market at fair prices. Within two years they had also paid off their debts to the bank, and were admitted as full members of the co-operatives.

Credit alone is not enough. A development programme which includes credit as one of its components must be supported by adequate and appropriate inputs if it is not to fail and leave its participants no better off then before, at best, and chronically indebted, at worst. In the case of agriculture, improving access to credit without creating access to other necessary inputs and markets at the same time can be a recipe for disaster.

An Oxfam advisor in Zaire summed up the issues in a policy paper in 1975: "To have a successful credit programme, it will have to be an integral part of a rural development programme: i.e. there must be supporting services, a viable market, price incentives, good infrastructure and extension services..... Many credit programmes in developing countries have failed because some of these points have been neglected".

A related point is that agencies which operate in rural communities should be sensitive to the broad implications of their intervention. For example, providing cheap credit as an alternative to that provided by an exploitative moneylender is myopic if the moneylender is also active in other local markets - if, for instance, he provides employment or buys produce from the small farmer. Driving such a moneylender out of business without ensuring that adequate replacements exist for his other functions can create more problems than it solves.

Training in the administration of credit programmes. One input which is absolutely crucial to a successful credit and/or savings scheme is training in financial techniques, such as basic book-keeping. The efficient administration of any bank or financial institution requires at the very least that accurate records of deposits and withdrawals are kept. Training local people to run their own banks or credit unions reduces dependence on moneylenders and unsympathetic commercial or state banks. While the benefits of investment in training are less tangible than investment in more 'visible' development projects, those benefits are long-term and wide-ranging.

A case in point is provided by the credit unions of West Africa. The credit and savings co-operatives organised by village groups in some West African countries offer their members the chance to accumulate personal savings and enjoy access to a local source of credit at reasonable rates, whilst still retaining democratic control of the administration and allocation of group resources. A major problem for these co-operative banks, however, has been that of finding active members who are sufficiently educated in operational techniques of financial management.

The African Co-operative Savings and Credit Association (or ACOSCA) has responded to this need by establishing training centres in Cameroon and neighbouring countries, where co-operative officials are taught book-keeping, auditing, how to handle defaults, community development, and general leadership skills. National credit union organisations propose students for these courses; and after training these students return to run their local credit union or co-operative bank. Many new credit unions have been established in West and Central Africa as a result of the success of these training centres.

Replication of existing power structures. A problem with many new credit schemes which aim to remedy the deficiencies of existing financial institutions is that they may mirror the power and status relationships which already exist within communities. Credit projects which involve the poor by being administered through co-operatives or locally manage credit unions can be seen as a threat by those in positions of power. A common reaction is for the rich and powerful to try to sabotage the project altogether, or else to manipulate it to their own advantage. This problem was encountered in an Oxfam development programme in West Orissa, India (known as Oxworp for short).

Oxworp, which included various credit-based schemes, aimed to assist the development of an entire region of Orissa State. It was implemented through management committees, which were to be set up in selected villages and run by the local people, so that local needs were correctly identified and addressed.

An evaluation report later revealed that many management committees simply reflected local power or caste hierarchies, and that they tended to be dominated by individuals whose motives were self-advancement, not community development. The report mentions the situation in one particular village committee, where: "It did not go unnoticed that the principal office bearers were able to adopt a more affluent lifestyle, and this tended somewhat to destroy the confidence that the membership had in them".

It seems, therefore, that it might be just as difficult to make credit available to the poor through local institutions like co-operatives as it is through commercial banks. Corruption, nepotism and inefficiency in local institutions can present obstacles as insurmountable to the poor borrower as bureaucratic indifference or moneylender exploitation.

Dependency

Impediments to self-sufficiency. As a development agency, most of Oxfam's projects involve handouts or subsidised inputs. While such assistance may seem worthwhile in the short-term, it may also inhibit rather than promote the ultimate objective of all development programmes - self-sufficiency for its recipients. Providing a loan to anyone whom a bank would refuse to accept as a client is effectively subsidised credit, as is placing an 'incentive deposit' with a bank to induce it to lend to the poor. One of Oxfam's Field Directors summed up this dilemma neatly:
"The important question for Oxfam is whether we are really doing a group a favour by giving it a 'subsidised' loan if our aim is to get them used to the competitive commercial world, or are we merely postponing the day when they have face economic reality?"

It is impossible to generalise. Some 'incentive deposits' have initiated permanent relationships between poor borowers and banks, while others have created a dependence by both banks and borrowers on an intermediary agency. What is certain is that any programme which promotes dependence rather than independence should be avoided, while inputs such as training or extension services should be an integral part of any development package.

Institutionalising dependence. Credit programmes which neither develop local mechanisms for saving, nor train the beneficiaries to participate in running them themselves, institutionalise dependence on aid from outside the community. Sometimes agencies intervene in an effort to free people from oppressive or exploitative relationships, as in the case of the 'liberation loans' described earlier, but often this intervention succeeds only in shifting the focus of dependency from the callous exploiter to the well-meaning agency.

For instance, the reliance of small Haitian coffee growers on seasonal loans at 100 percent interest was noted by a local church mission. Oxfam made a grant to the mission to establish a revolving crop loan fund to break this dependency. After several years of support, however, funding stopped when it became clear that the mission had not succeeded in building effective local credit and savings mechanisms, and that reliance on advisers from outside the community had not been reduced. Oxfam discontinued its support for the programme because it felt that the mission's role in the community was being institutionalised.

Participation. Governments and development agencies tend to approach rural communities with a conviction that they know what is best for the community's 'development' or 'modernisation'. Since these outside agents also control the resources on offer (credit, training, other inputs), the beneficiaries of the 'development programme' - the local people themselves - generally have few opportunities for participating in defining goals, determining procedures, or controlling and evaluating the procedures of the organisations which supposedly represent their interests.

Yet unless the real needs and aspirations of local people are taken into account, a programme designed to help them is unlikely to achieve its stated ambition; nor will its benefits reach those who need assistance most. In fact, experience has shown that most projects which are run entirely by outsiders, with resources brought in from outside, merely reinforce existing forms of dependency, or replace those dependencies with new ones.

On the other hand, the motivation and commitment vital to a project's success can be achieved if participation and active involvement in the project's design and operations is encouraged. For example, since very poor households lack the resources to pay for many of their own basic needs, the less directly responsible they are for the administration of schemes which offer them credit for 'productive investment', the greater the probability that they will somehow or other divert it to other uses. If credit schemes are to succeed in helping the very poor achieve self-sufficiency and independence, they must generate a strong commitment by the beneficiaries to those objectives.

Conclusion

It is the argument of this paper that access to reasonably priced credit is vital if people with few resources of their own are to enjoy the chance of a better livelihood. It has also been seen that efforts to satisfy this need by the introduction of new ways of saving and obtaining credit have often run into difficulties. This does not mean that the principle is wrong, however; many schemes have succeeded in raising living standards, promoting independence and reducing exploitation.

An Appendix to the Oxfam credit and savings manual includes an approach to the identification of rural financial needs which are not met by existing formal or informal institutions. Four checklists of questions are suggesed for use by agencies, which aim to generate important information about households' economic relationships and their use of savings and credit, community structures and institutions, and appropriate interventions by agencies in rural financial markets.

The proposed approach can be summarised in five stages:

1. Identify local financial needs first, before deciding on the resources which might be employed to meet those needs.

2. Where poor access to credit suppliers prevents local needs being met, investigate the potential for mobilising the community's own resources through savings.

3. Where indigenous resources are clearly inadequate, encourage borrowers to make use of appropriate external financial markets if possible, and explore methods of encouraging these markets to respond to local needs.

4. Only consider committing agency funds to a credit programme where these markets prove unable or unwilling to meet the specific need identified.

5. In order to avoid dependency, aim to reduce and eventually eliminate the commitment of agency funds, and never allow the programme to become permanent or institutionalised(6).

The general conclusion is that the role of small-scale credit and savings schemes in the development process is crucial, and hat, once a decision has been taken to intervene in local financial markets, the effectiveness of that intervention can be enhanced if the following general and administrative points are borne in mind:

1. Credit is frequently introduced as one component of a broad development package, so the programme as a whole must be viable. If important inputs are lacking, or if insufficient credit is extended, the credit element will fail along with the rest of the package.

2. Credit does not automatically imply the provision of loan funds by an outside agency. Many poor people can generate their own funds through informal community savings schemes. Alternatively, agencies can induce formal institutions to lend to the poor by acting as guarantors or intermediaries.

3. Credit-based development schemes are more likely to achieve their objectives where loan recipients are consulted about their needs, and also participate actively in the programme's design and administration. This process of consultation and participation helps reduce problems arising from erroneous assumptions about borrower needs, resources and constraints.

4. A locally-administered credit scheme is often only viable in conjunction with an adequate programme of training. Keeping accurate accounts fulfils the objectives of informing clients, encouraging financial discipline and maintaining an efficient service, so an understanding of basic book-keeping at least is essential.

5. Interest should be charged on loans, both to encourage a sense of independence on the part of the borrowers, and to provide an incentive for lenders to take on clients who they might otherwise regard as uncreditworthy. A project which cannot support a reasonable rate of interest is not viable for credit finance anyway.

The final point above highlights the fundamental dilemma about credit which governments and agencies seriously interested in assisting the poor should always bear in mind. Depending on who lends to the poor and what their true motives are, credit can be seen as either a powerful tool of development or an even more powerful weapon of exploitation. There is a fine line between a credit programme which meets the real needs of its beneficiaries and one which traps them in permanent debt bondage, repaying "interest forever, capital never". The introduction of new sources of credit to a poor rural community should liberate poor people and expand their options and opportunities, not add to the many problems and constraints they already face.

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CREDIT CO-OPERATIVES IN SRI LANKA

by Lionel Gunawardana *

In Sri Lanka credit co-operatives were born over three quarters of a century ago. These societies which nurtured the early leaders of the co-operative movement have been on the decline since the late fifties, and very successful attempts have been made to revive them in recent years. The purpose of the article is to bring into focus this revival, its progress, successes and problems. Some aspects of the credit programmes of the main and predominant co-operatives in Sri Lanka - the multipurpose co-operatives - will be briefly described, and certain aspects highlighted, to draw lessons for the unimpaired growth of credit co-operatives.

Brief History

The co-operative credit movement began with the enactment of the Co-operative Credit Societies Ordinance in 1911. The growth of the movement was slow at the beginning, but the people gradually got accustomed to co-operative principles through the credit co-operatives. In 1921 the Ordinance was amended to provide for the formation of secondary and non-credit co-operatives. After that the movement grew faster. In 1942 the number of credit co-operatives of unlimited liability type had risen to 1,519.

The co-operative banking system began in 1929, when the first co-operative bank was registered in Jaffna. By 1949 the number of co-operative banks rose to six and the Co-operative Federal Bank was formed as the apex bank. In 1961 the Co-operative Federal Bank was replaced by the

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People's Bank which was established by the Government to serve as the bank for co-operatives, in addition to normal commercial banking activities. The co-operative district and provincial banks were absorbed into it.

Under a directive from the Ministry of Agriculture in 1957 the Department of Co-operative Development started a "drive" to form a multipurpose society in each village in the country. 3,897 multipurpose co-operatives were formed by the end of 1958. The Department diverted its main attention to multipurpose co-operatives.

By 1957 the number of credit co-operatives had risen to 3,743 with a membership of 130,903. There was stagnation and decline from 1957. 1,143 credit co-operatives were registered during the four years that preceded 1957, and only 242 during the four years that followed (1). The availability of liberal agricultural credit through multipurpose co-operatives, and agricultural production and sale societies contributed greatly to this decline.

There was a rule prohibiting committee members from holding office continuously for over three years which has also been a cause for the decline of many societies as they were deprived of the services of dedicated committee members who became ineligible under the rule. This rule was rescinded in 1980.

Out of the 2,350 registered unlimited liability credit societies only 935 were functioning in 1978. In 1979 steps were taken to reactivate them: seminars were conducted to educate the members on the importance of thrift and savings, self-help and mutual assistance.

The Registrar of Co-operative Societies wrote in his 1937-38 Report, "Credit continues to be the main line of approach adopted by the Department in introducing co-operation to the people. Apart from its remarkable efficiency as a battering ram in attacking poverty, the great educative value of credit specially recommends it as the best method of preaching the fundamentals of co-operation. It stresses honesty, builds up character, develops self-help, inculcates service, discovers leadership and gives a thorough training in business habits and business management"(2).

The credit co-operative movement entered a "period of awakening" in 1980. Many old societies were revitalised and new ones formed. Their number rose from 995 in 1980 to 1,758 in 1984. District level organisations of credit co-operatives were formed in two districts in 1979. Several other districts followed later. The apex organisation for credit societies - The Federation of Co-operative Thrift and Credit Societies' Union - was registered in 1980.

Present structure of the Movement

The credit co-operative movement now has a three-tier organisational structure: primary societies at the base, district unions at the middle level and the Federation of Thrift and Credit Societies' Unions at the national level.

Primary Societies

Primary credit co-operative societies are of two types, namely unlimited liability societies and limited liability societies.

Unlimited Liability Societies

The Committee on the Re-organisation of the Co-operative Movement in Sri Lanka has described them as follows: "The co-operative credit societies of unlimited liability are the finest form of joint economic self-help that one can think of. They are based on mutual knowledge and trust and they lend without tangible security purely on the basis of the borrower's dependability to use the loan correctly, his honesty and general conduct. There are only two sureties who undertake to pay up if the borrower defaults. Their main task is to supervise the use of this credit. The members are jointly and severally liable to an unlimited extent for the debts of their society. So naturally they are careful about enrolling members and admit only the credit-worthy judged on the above standards. This is a fine example of men desisting from exploiting one another's needs and instead joining hands to solve the common need. The work they do not only helps the members economically but also raises their moral standards, for the whole enterprise is based on human values" (3).

Objectives - to satisfy the economic, social and cultural needs of their members in accordance with co-operative principles, inculcating the habit of thrift and promoting the practice of mutual assistance and self-help.

Functions - to establish funds to meet the needs of the members, undertaking thrift and savings programmes, to provide credit to members and to organise social and cultural activities.

The Main Differences Between Unlimited and Limited Liability Credit Co-operatives

The liability of a member of a limited liability society is limited to five times the value of his shares. In unlimited societies the members are jointly and severally liable to an unlimited extent for the debts of their society.

The by-laws of limited liability societies provide for the appointment of a manager for handling finances, which is done by the treasurer in unlimited liability societies.

The net surplus of a limited liability society can be used for paying interest on shares.

In a limited liability society a member can withdraw his shares at the end of the year after the audit of accounts, while in an unlimited liability society he can withdraw them only after two years has passed.

The most notable distinction of the unlimited liability type of society is the strong bond that exists among members based on mutual trust and confidence. The principle of open membership is greatly conditioned by the responsibilities of unlimited liability for, although a person has the need, common to the members in general and which the society seeks to satisfy, unless he is of exemplary character and is absolutely trustworthy, he cannot be admitted to the society.

The structure and activities of both unlimited and limited liability types of societies are similar. The co-operative thrift and savings societies are also of unlimited liability. With the expansion of membership and activities, especially after the opening of co-operative banks (which will be discussed later) some unlimited liability societies have converted themselves into limited liability societies. Earlier, the limited liability societies were usually confined to urban areas and the unlimited to rural areas. This distinction is slowly disappearing. More and more limited liability societies have been organised and a number of unlimited liability societies have been converted into limited liability in rural areas in recent years.

District Unions

Encouraging and guiding the member societies in their saving and other activities, arranging educational programmes for primary members, organising new primary societies, and providing a forum for expressing views and exchanging ideas are the main objectives of the District Unions.

The National Federation

The main objectives of the Federation are promotion of credit co-operatives, provision of knowledge, guidance and financial assistance to member societies and acting as spokesman for the credit co-operative movement of the country.

In furtherance of these objectives the Federation is engaged in organising credit co-operatives, carrying out educational and training programmes, conducting seminars and conferences for the exchange of ideas, and producing educational material.

Activities of Credit Co-operatives

Deposits

The societies accept deposits from non-members as well as from members. The main types are members' and non-members' saving and fixed deposits, members' compulsory deposits (a borrower should have deposits of not less than one tenth of the amount borrowed), and children's deposits.

At the end of 1979 the total deposits in the credit co-operative societies was Rs.73.1 million. At the end of 1985 it had risen to Rs.209.4 million, an increase of 186.4 percent in six years.

Loans

The main purposes for which loans are extended are agriculture, livestock raising, small business activities, purchasing of land, house construction and repairs, redeeming old debts, education of children and festivals.

Loans above Rs.5,000/- have to be secured by tangible collateral. The amount of loans extended to members in 1979 was Rs.45.5 million, and the figure rose to Rs.265.6 million in 1985, an increase of 483.7 percent in six years.

Table 1

Growth of Credit Co-operatives (4)
(Unit: Rs. million)

Year/Type of Society	No. of Societies	Membership	Share Capital	Reserves	Deposits accumulated	Loans during the year
1955						
Unlimited	3,145	102,907	1.4	2.4	2.3	8.1
Limited	147	12,684	2.1	0.4	0.4	1.8
Thrift & Saving	385	55,956	8.9	0.1	0.6	2.5
Total	3,677	171,547	12.4	2.9	3.3	12.4
1957						
Unlimited	3,581	115,874	1.9	2.8	2.8	9.2
Limited	162	15,024	1.4	.4	.1	1.3
Thrift & Saving	404	66,691	9.9	.2	.7	2.0
Total	4,147	197,589	13.2	3.4	3.7	12.5
1979						
Unlimited	910	63,361	3.4	7.0	10.6	16.3
Limited	287)					
	)	140,359	22.3	5.3	62.5	29.2
Thrift &	)					
Saving	84)					
Total	1,281	203,720	25.7	12.3	73.1	45.5
1980						
Unlimited	944	62,672	3.6	7.6	11.5	20.5
Limited)						
)	371	143,884	31.0	6.5	66.5	77.6
Thrift &)						
Saving)						
Total	1,315	206,556	34.6	14.1	78.0	98.1
1985						
Unlimited	1,661)	265,826)	73.0	40.3	209.4	265.6
	)	)				
Limited	555)	)				
		)				
Thrift &		)				
Saving	56	31,809)				
Total	2,272	297,635	73.0	40.3	209.4	265.6

The business volume of credit co-operatives has been rapidly increasing since the revival programme was initiated in 1979.

Some credit societies give loans under the "Million Houses Programme" of the Government. Under this programme the National Housing Development Authority provides housing loans for low income groups. Funds are channeled through the District Unions. Approval of names submitted is made by a committee of leaders of public organisations with the District Union, which then applies for funds from the National Housing Development Authority. When the loans are approved by the Authority the funds are released to the societies. The deciding power regarding to whom to lend is not entirely with the co-operatives.

Banking Offices

Traditionally credit societies hold meetings and transact business in the village school or other public place, or in the homes of office bearers either weekly or monthly. In order to overcome the problem of paucity of funds generated by way of deposits and to be able to provide adequate credit to members, a scheme of opening banking offices named "Co-operative Banks", was initiated as a part of the reactivation programme, and implemented in 1979. These banks work during specified working hours daily with paid employees. Only well-run societies have been selected for operating banks.

By the end of 1984 127 societies had opened banks. 118 of them were surveyed by the Department of Co-operative Development. The following table shows their progress(5).

Six district unions of credit co-operatives have opened district co-operative banks. Four other district unions have started inter-lending among credit co-operatives as a first step to opening banks. The credit co-operatives deposit their surplus funds with the district bank of their district which uses their funds for lending to societies needing funds.

Table 2

Progress of Credit Societies
(Unit: Rs.1,000)

	Before opening banks	After opening banks	Progress	%
No. of Members	12,653	18,214	5,561	43
Members' shares	1,299	3,049	1,750	134
Members' deposits	6,563	14,661	8,098	123
Non-members' deposits	858	5,971	5,113	595
Investments in other banks	2,196	6,314	4,118	187
Loans to members	6,160	16,340	10,180	165

(Note: The scheme of opening banks started in 1979. Therefore the period that has been available for each society to achieve progress through co-operative banks ranged from a few months to four years. Three societies had functioned for four years, 16 for three years, 17 for two years and the rest for less than two years).

With the opening of banks, fundamental changes in the internal working of the societies' management and accounting systems have been made. The fact that they have a fixed place of work and regular working hours has been a point of attraction. Certain sections of the people who were not attracted to the credit co-operatives earlier have joined them. The name "Co-operative Bank" too has given the societies a new status.

Repayment in Credit Co-operatives

The repayment position in credit co-operatives in the earlier days was good. In unlimited liability credit co-operatives loan recoveries were excellent, for it was pointed out by the Registrar in 1948 that over Rs.14 million had been lent to and recovered from these small societies with a loss of only Rs.4,000, an almost incredible record in view of subsequent developments"(6).

The main reason for the good repayment position is that the loans are not financed by the Government, no political influence is brought to bear on the societies in granting or recovering of loans, and the mutual knowledge and trust among members compel them to repay what is borrowed out of the deposit contributions of fellow members.

Joint Purchases

Some societies are engaged in joint purchases of agricultural inputs and other requirements of members on their behalf. These goods are distributed among the members at cost price.

Social, Cultural and Welfare Work

In order to help the members to lead a better and fuller life credit societies are engaged in social, cultural and welfare activities such as maintaining pre-school classes for children, Sunday schools for teaching religion, distribution of free school books, arranging tuition for students in higher classes, medical assistance schemes, road building, organising stage plays, musicals etc. The primary societies conduct educational programmes for members at the base or village level. Training and educational programmes at district level for members, leaders and employees are conducted by the district unions in collaboration with the Department of Co-operative Development.

Government Control and Assistance

The co-operatives in Sri Lanka, as is the case in all developing countries, are to a greater or lesser extent controlled by the Government. The most undesirable control is through nomination to the Board of Directors. Credit co-operatives in Sri Lanka are free from this type of control. Government intervention is through audit, promotional and supervisory functions. At present the structure of the credit movement is complete with district unions and the National Federation, and promotional work is being undertaken by the movement with active co-operative departmental assistance.

Agricultural Credit Activities of Multipurpose Co-operatives

Up to 1947 the co-operative credit societies were the only source of co-operative credit to the people. When the Government started a food production campaign in 1947 after the food shortages during the Second World War co-operative agricultural production and sale societies (CAPS) were entrusted with agricultural lending. From 1957 multipurpose co-operative societies (MPCS) became the main channel of government credit to farmers. The source of credit for the societies was the Department of Agrarian Services earlier, and from 1967 the People's Bank. Various credit schemes financed by the Government have been implemented to provide production credit by these societies.

These Government-financed "Expanded Credit Schemes" initiated in 1963-64, "New Agricultural Credit Scheme" in 1967-68 and "Comprehensive Rural Credit Scheme" in 1972 were all intended to provide adequate and timely credit to farmers to assist them in improving their production and increasing their incomes. The Comprehensive Credit Scheme recognised the need to lend for consumption purposes as well.

Under the Expanded Credit Scheme of 1963-64 loans were given to non-defaulting members of defaulting societies. The corporate responsibility for the borrowings of a society was set aside. From 1967-68 when the new agricultural credit scheme was introduced, loans issued by the People's Bank were guaranteed by the Central Bank of Sri Lanka and 75 percent of the amount of any loan not recovered within a reasonable period was made good by the Central Bank.

In 1973 the Government granted loan defaulters a three year extension period to repay their arrears, and made them eligible for fresh loans "to encourage the cultivators to repay their loans; as a further incentive, the interest of overdue loans was frozen" (7).

From 1973 co-operative rural banks started functioning as the credit departments of multipurpose co-operative societies. In addition to their own credit activities Government-financed agricultural credit was extended through them. In the operation of Government credit schemes neither the People's Bank nor the multipurpose societies have any real autonomy in credit decision-making. Loans are given according to Government criteria. There is a clear distinction between these loans and the loans proper of the co-operative rural banks.

In 1977, which was a general election year, lending for paddy cultivation was very liberal- Rs.329 was lent through co-operatives and loans were given irrespective of whether borrowers had settled their earlier loans or not. Only

Table 3

Progress in Rural Banking in Multipurpose Co-operatives(8)
(Unit: Rs.million)

	1977	1980	1983	1985
MPCS	282	289	290	286
Rural Banks	641	746	804	914
No. of saving accounts	803,528	1,160,299	1,612,485	1,439,077
Amount of deposits	170.5	309.2	589.8	927.1
No. of fixed deposit accounts	2,393	9,180	24,765	24,702
Amount of deposits	4.9	59.2	128.2	160.5
No. of short-term loans	51,263	59,331	67,364	85,926
Amount lent	55.0	79.7	147.7	234.1
Pawnbroking accounts	264,437	242,340	339,818	397,851
Amount of advance	55.8	97.0	243.9	340.7

Rs.57.07 million were recovered by the end of 1978 (8). Recoveries of Government-financed loans have been consistently poor. Overdues have been high. Farmers thought that it was not necessary to repay loans taken from the Government. But for loans to be recovered, the lender should have the unqualified will to recover the loan, and the borrower the unqualified intention to repay. The Central Bank guarantee damaged both. The policy however changed in 1978 to more stringent conditions.

Rural Banking in Multipurpose Co-operatives

Co-operative rural banks (CRB) were first started in 1964 as banking departments in the co-operative societies with the People's Bank extending both financial and managerial support. Before 1971 fairly large and economically viable multipurpose co-operatives were selected for establishing rural banks. In 1971 nearly 4,000 multipurpose societies were amalgamated into 368 large size societies and they provided the necessary framework for the expansion of the Rural Bank Scheme on a national scale. At present there are 186 multipurpose co-operatives with a membership of 2,221,816 and a total of 914 rural banks.

The co-operative rural banks continue to be the channel for the Government-sponsored agricultural loans for cultivation of rice and several other essential food crops.

Table 4

Agricultural Loans (Government financed) issued by Multipurpose Co-operatives(9).

		Rs. Million
1977	-	329
1980	-	22
1983	-	40
1985	-	39.9

Problems of Credit Co-operatives and Some Solutions

Membership

Credit co-operatives traditionally have been very small with a low average membership. There are only 2,216 credit societies with a membership of 265,826. Consequently the total savings generated has been low, limiting their ability to meet adequately the loan requirements of members. Therefore it is necessary to increase the membership, but care has to be taken not to enlarge the membership to an extent that will endanger the co-operative character of the societies. In addition, more societies should be formed to enlarge the geographical area covered by the Movement.

Future Plans and Some Suggestions

Education

It is planned to expand educational and training programmes carried out by primary societies, district unions and the Federation for Leaders, Members and Employees. The primary concern for member education through study circles and other methods will remain with the primary societies.

As membership of most credit co-operatives is inclined to be elderly, communication programmes are being implemented to attract more women and children for savings and other credit co-operative programmes and to create interest among members and potential members. Mass meetings, study visits, sports festivals, theatre shows, oratory contests, co-operative functions, newsletters and brochures are some of the strategies that are being resorted to.

Funds

Inadequate funds have been a problem in many societies. Now the credit co-operative movement is attempting to build up a strong financial base. It seeks to achieve this by establishing a three-tier co-operative banking system at village, district and national levels to retain savings generated at primary level within the movement, and use them for the development of the villages by lending them for the economic activities of primary members. Co-operative banks at village and district levels have been established. These activities are expected eventually to lead to the formation of a national level bank. As societies increasingly receive non-members' deposits, such depositors are being persuaded to become members.

Supply Activities

There is divided opinion on the view that the sale of agricultural inputs and consumer goods should be undertaken by credit co-operatives. Those who oppose this view point out that there are separate co-operative organisations set up for this purpose, and the credit movement will lose the independence it now enjoys if it enters this field. They feel that credit co-operatives should implement a supervisory system where farmers could be guided in the use of loans, and assisted in obtaining their requisites through the existing co-operative organisations.

The present by-laws of credit co-operatives provide for the joint purchasing of agricultural production and other requisites for distribution among members, and several societies are engaged in such activities. They should not go beyond this. Apart from the danger of Government interference sales activities could cause losses due to price fluctuations etc., which would shake the confidence of the depositors.

Channeling Government Loans

A section of the leadership of credit co-operatives are eager that the Government should channel its loans to farmers for agriculture and livestock raising through credit co-operatives. However well-meaning this eagerness is, this action might do more harm than good. Although those advocating such a policy equally strongly advocate that the societies should be completely free to handle these loans according to their own procedures, past experience has adequately proved that Government money is accompanied by Government control. Even for housing loans channelled through credit co-operatives the final authority of deciding the priority list of borrowers is not entirely with the co-operatives.

It would be wise to keep the credit co-operatives independent of *Government-financed credit* schemes. The network of multipurpose co-operative rural banks are adequate to handle Government loans. Credit co-operatives should maintain their independence from external control and intervention.

<u>Linkage with other Co-operatives</u>

Presently credit co-operatives have no linkage with other primary co-operatives such as multipurpose, fishermen's, and industrial societies. These links should be established to serve the members more effectively.

Before the formation of multipurpose co-operatives Sri Lanka had experimented a "link-up" system which had been very successful in an area called Palugama in the hill country.

> "The Village Credit Society is the sole source of credit to members. Where credit is required by a member for buying consumer goods, pay orders are issued by the credit society on the local consumers society of which too the borrower is a member..... The credit society acts as the collecting agent of the CAPS society. The CAPS society sells the produce of its members in the Colombo market and pays them through their respective credit societies. The credit societies recover their dues before making payment to the members. This system of credit integrated with

supply and sale saved the members from the clutches of middlemen, and resulted in the improvement of living standards"(10).

The system was highly commended by co-operative experts. A similar link-up could be effectively implemented by the credit co-operatives with the existing multipurpose co-operatives and other branches of co-operative activity such as supply of agricultural inputs and consumer goods, and marketing of agricultural produce. Such a system would enable credit co-operatives to arrange an integrated package of services to their members, and yet not involve themselves in business activities which require special skills, and are risky, specially for a financial institution.

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CO-OPERATIVE BANKING: AN ALTERNATIVE RURAL BANKING SCHEME AS A STRATEGY FOR RURAL DEVELOPMENT IN NIGERIA

by C.C. Agu *

There is a growing realisation by policy makers and economists in most developing countries of Africa that a major factor of development programmes is "urban bias". As Paine (1) noted the urban bias development 'rather than capitalism or unequal international relationships is now regarded by some as the most fundamental explanation for the poverty and inequality that racks so many Third World countries to-day, and as the main contributing factor to the deterioration in the living standards of substantial numbers of rural inhabitants'.

The key to sustained economic development is the re-ordering of the development efforts in favour of the rural areas as an underdeveloped and neglected rural economy will frustrate whatever impressive efforts are made to achieve economic "take-off".

The problem of rural underdevelopment and hence general economic stagnation is inadequate flow of financial resources to the rural areas as well as the channeling of the available resources from the rural to the urban areas. Mobilisation and utilisation of own financial resources are the most important preconditions for modernising the rural areas and improving the living standard of many.

In Nigeria the rural economy encompasses a substantial proportion of the country's human and natural resources and

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therefore requires large amounts of financial resources too in order to develop it. It is thus necessary to provide a channel for mobilising and investing savings in the rural areas. It is the contention of this paper that co-operative banks, if re-organised, can be the most relevant important financial institutions to encourage and mobilise savings for productive investment in the rural areas.

Structure and Definition of Rural Areas

The definition of rural areas poses problems in developing countries partly because of the degree of overlap between urban and rural communities and partly because of the degree of urbanisation from country to country and even within a country.

Rural economy in Nigeria and in many developing African countries can better be described than defined. It can be viewed as the sector of the economy where agriculture forms and main economic activity of the population irrespective of the population size, while other activities like handicrafts, petty trading and other small-scale production units form a second line of activities undertaken usually to augment the meagre income from agriculture. In other words, a rural area is predominantly agricultural when occupied by peasant farmers, artisans and small-time occupational practitioners who live in close interrelationships within communities of varying populations. The rural inhabitants depend mainly upon agriculture for their subsistence, live in relative isolation, have little access to national resources and very low influence over their future. The farmers operate uneconomic sizes of farm because of lack of resources, primitive technology and fragmentation of land within the communities.

The rural area is further defined by having a low standard of living, low level of productivity, lack of medical facilities and widespread illiteracy. Their quality of life leaves the people severely disadvantaged and less able to improve their conditions without outside help. The low standard of living is manifested in very low incomes, poor housing and limited opportunities for education. The wet season is the most critical time of the year for the rural areas in Nigeria especially for the poor people, women and children. 'Commonly at (wet season) malnutrition, morbidity and mortality peak; the costs of sickness - to society in lost agricultural production and to families in food and income foregone - are at their highest; sickness is liable to make people permanently poorer and health services are likely to be at their least effective"(2).

The Concept and Objectives of the Rural Banking Scheme

The rural banking scheme in Nigeria was the Federal Government's reaction to the dearth of rural credit in its efforts to solve the problem of rural underdevelopment. The main objective of the rural banking scheme, therefore, is to mobilise and allocate loanable funds in the rural areas in a continuous way and to ensure that such funds are employed productively. It is envisaged that the scheme will actively facilitate the transformation of the rural environment by promoting the rapid expansion of banking facilities, services and banking habits in the rural and near rural communities (3). The rural banks are expected to serve as instruments for the creation of credit in the rural areas, which will take the form of equity and loans for small-scale farmers and entrepreneurs.

The rural banking scheme is not the creation of a new type of financial institution. Rural banks are commercial banks - not separate entities but branches of the existing commercial banks. Generally these commercial banks concentrate their branches in the urban areas where there are industrial and commercial activities and where profits are highest. Because the rural areas do not provide the lucrative ventures that attract commercial banks, it required the exhortation of the monetary authorities - the Government and the Central Bank of Nigeria - to "force" the banks to establish branches in rural areas.

Table 1

Rural Banking Programme: Allocation of Identified Centres

	Banks	Allocation under first phase	Completed at the end of December 1980	Allocation under second phase
1.	African Continental Bank Ltd.	16	16	19
2.	Allied Bank (Nig.) Ltd.	6	6	7
3.	Bank of Credit and Commerce International	-	-	6
4.	Bank of the North Ltd.	6	6	19
5.	Co-operative Bank Ltd.	5	5	8
6.	Co-operative Bank of Eastern Nigeria Ltd.	7	4	8
7.	First Bank (Nig.) Ltd.	40	39	37
8.	I.B.W.A. Ltd.	11	10	13
9.	Kaduna Co-operative Bank Ltd.	3	3	6
10.	Kano Co-operative Bank Ltd.	6	6	6
11.	Mercantile Bank (Nig.) Ltd.	3	3	6
12.	National Bank of Nigeria Ltd.	15	15	19
13.	New Nigeria Bank Ltd.	4	4	9
14.	Nigeria Arab Bank Ltd.	7	7	6
15.	Pan African Bank Ltd.	5	5	6
16.	Savannah Bank of Nigeria Ltd.	7	7	11
17.	Societe Generale Bank (Nig.) Ltd.	-	-	6
18.	Union Bank (Nig.) Ltd.	27	27	36
19.	United Bank for Africa (Nig.) Ltd.	27	27	32
20.	Wema Bank Ltd.	5	4	6
	TOTAL	200	194	266

Source: Central Bank of Nigeria, Annual Report and Statement of Accounts, December 1980, p.38.

The stiff resistance shown by the commercial banks had made it necessary for the Central Bank to determine the rate at which banks should establish branches in the rural areas. The first thing the Central Bank did was to make a survey to identify "unbanked" areas and the need for 1,126 rural branches (see Table 1). To equitably distribute the burden of rural expansion among the commercial banks, it was decided to allocate the identified rural centres to the commercial banks on the basis of a formula which relates the number of each bank's rural branches to its total branch network throughout the country (4). Furthermore, to facilitate the execution of the programme, the Central Bank decided to phase the scheme. The first phase was the period July 1977 to June 1980.

The second phase was to last from August 1980 to December 1983. Under the first phase 200 rural centres were identified and allocated to the commercial banks for opening branches. Under the second phase 266 rural centres were allocated to the commercial banks. The allocation under the second phase is based on the relative sizes and branch network of the various banks except that no bank was allocated less than six branches (see Table 1).

Appraisal of Rural Banking Scheme

Considering the background of the rural economy in Nigeria, it becomes doubtful whether commercial banks alone can cope with the rural banking policy and objectives without creating and accumulating adverse effects on the banks themselves and on the economy at large. For instance considering the low capital base, the quality and quantity of human and material resources available to commercial banks, the rate at which the banks are expected to expand into the rural areas is likely to over-stretch their resources and could lead to the failure of a bank. This could in turn lead to a run on the other banks which could spell economic doom for the country.

Furthermore, the strong resistance put up by the commercial banks to the monetary authorities' persuasion, coersion and directives to make them open up branches in the rural areas is a good enough indication that they were not prepared to undertake the type of risk being "forced" on them. It is fairly clear that they are not prepared to work towards the achievement of the objectives for which they were established. Even if commercial banks have comparatively sizeable resources and trained staff at their disposal their pattern of business and procedures are not attuned to dealing with the rural and small scattered savers and borrowers who engage in various activities and small production units.

In Nigeria commercial banks tenaciously continue to adhere to the form of banking that became prevalent after the industrialisation of the United Kingdom in the eighteenth and early nineteenth centuries, which was "commercial", with the sole accent on short-term credit to trade and industry, the underlying theory being that credit should be self-liquidating. The implications of this are that rural banks, like their parent urban commercial banks, refrain from explicitly financing fixed capital formation because it would lock up bank funds contrary to the tenets of "sound" commercial banking as reflected in the unjustifiable "golden rule of banking"; and also because it would reduce borrowers' interest in the prosperity of their enterprises. This in particular makes rural banking unsuitable for rural financing of any development programme. Commercial bank credit cannot, therefore, be used as equity capital for small-scale farmers and rural entrepreneurs.

The concept of rural banking in Nigeria seems thus absurd. The banks may be rural in the sense that a number of them are located in rural areas but in operation they are not. A rural bank is located in a predominantly subsistence agricultural community for the purpose of mobilising and relending idle funds within the community with the ultimate aim of developing, modernising and raising the standard of living of the rural inhabitants as a preliminary step to the economic take-off of the national economy. It is not sufficient to have banks located in rural areas - they must be interested in providing for the financial needs of the rural areas in their quest to develop.

Unfortunately, in Nigeria rural banks are not separate entities but branches of the old-established commercial banks subject to the rules, traditions and policies of their individual parent headquarters, and guided in their operations by the profit maximisation motive. The development of rural areas is not their concern as such banks follow business instead of leading business, and for their existence as a business depend on the lucrative and flourishing industrial and commercial businesses of the urban areas. Such banks in the rural areas could bring the savings already mobilised by various traditional credit associations under their control for onward transmission and investment in the urban centres instead of mobilising dispersed individual unit funds into a large volume of savings to re-lend to the communities they are established to service. But this would be unfortunate because it would make poor rural communities permanently poorer and the anticipated modernisation of the rural areas still elusive. The operations of the rural banks so far suggest that they act as profit centres for their parent banks, mobilising resources and transferring them to the urban areas for investment in more profitable less risky commercial and industrial ventures.

A major obstacle which the rural banking scheme has not and is not likely to overcome is the banking collateral syndrome which discriminates against the small saver and borrower and hence against the majority of the rural population. Rural banks in Nigeria pursue an unrealistic collateral policy in the sense that it does not take into account the social and economic environment peculiar to the communities in which they operate. A realistic collateral policy should serve to improve credit worthiness and should not be used to restrict credit (5). The collateral securities demanded by the rural banks are title to goods, negotiable securities and life insurance policies. These are not only foreign to the Nigerian economy but are unknown and unavailable in the rural areas. The type of collateral securities available in the rural areas are crops and, in rare cases, real estate, particularly arable land, but unfortunately these are "unacceptable" collateral securities for bank loans and advances.

Co-operative Banking as an Alternative Scheme

The provision of banking services in the rural areas is long overdue but the identification of the type of bank to be involved is very important in order to ensure a continuous flow of credit at every stage in a way that will suit the financial needs of the rural economy in its quest to develop. It is the view of the writer that the commercial banks' branches are inadequate and should not be the main channel for mobilising and investing rural savings. The only institutions that can successfully do the trick are those financial institutions which are completely rural based, which understand the development needs and problems of the rural community and are prepared to assist in the solution of the problems - not necessarily for monetary profit but more importantly because they affect the very basis of their existence and growth as business organisations. It is against this understanding that co-operative banking is considered a better alternative to rural banking and should be accorded priority attention by the monetary authorities.

A co-operative bank can be defined as a financial institution specially set up to offer saving and borrowing facilities for the co-operative societies and their members at cheaper costs than those provided by the traditional commercial banking institutions (6). A co-operative bank is meant to derive its strength from the co-operative movement and therefore to obtain its principal financial support from co-operative societies. Since the co-operative societies are expected to constitute the pattern of economic and financial organisation in the rural areas, a co-operative bank tends to be identified with rural development and to be expected to serve as the main vehicle of institutional credit to farmers and other small-scale production units.

Structure of Co-operative Banking in Nigeria

Co-operative banks as defined do not exist in Nigeria. This is because the so-called co-operative banks in Nigeria have lost their rural orientation and consequently their understanding of the special problems of farming and of the requirements of small-scale trade and industries in the rural areas. The structure of co-operative banking in Nigeria will confirm this assertion.

There are four Government-owned co-operative banks and one Federal Government-owned quasi-co-operative bank. Co-operative banking in Nigeria started with the establishment of Co-operative Bank Limited in 1953. In the following year, the Co-operative Bank of Eastern Nigeria was established. The two banks constituted the co-operative banking system until 1974 when the Kaduna Co-operative Bank was founded and in 1976, the Kano Co-operative Bank. In addition, the Federal Government realised, belatedly, the importance of co-operative financing to rural development and accepted the recommendation of the Committee on the Nigerian Financial System 'that the Nigerian Agricultural Bank should be re-named National Bank for Agriculture and Co-operative' (7). Consequently the bank ws re-named the Nigerian Agricultural and Co-operative Bank Limited, and 'has been directed to be responsible for financing viable co-operative projects of various kinds in addition to its traditional function of financing agriculture (8).

It is important to note that the Co-operative Bank Limited, and the Co-operative Bank of Eastern Nigeria were established with the object of functioning as truly co-operative financial institutions, drawing their resources from co-operative societies and making the bulk of their loans to the members. For instance the intention of the Western Nigerian Government in establishing the Co-operative Bank Limited, was stated as follows: "Since most of the developments envisaged for the movement will benefit the overall economy of the Region and concern persons of low income who are scarcely touched by the operations of the Commercial Banks and for whom it is the responsibility of the Government to provide some form of aid, it is expected that Government will use the bank as an instrument for rural finance and pay for the services rendered in this regard" (9).

The two banks were forced to abandon their objectives and responsibilities to the rural areas and go commercial by the requirements of the 1952 Banking Ordinance which restricted the use of the title "bank" to institutions registered under the ordinance. Despite not being so registered the two co-operative banks continued to use the word "bank" until they were pressurised to take commercial banking licences in 1962.

Unlike the first two banks, the Kaduna and Kano co-operative banks were registered to play a dual role viz as commercial and co-operative banks. The Kaduna Bank was to operate fully as a commercial bank, establishing branches and correspondents, and as it develops carrying out all and every type of banking business (10), and the Kano Co-operative Bank was to assist co-operative societies and also undertake other commercial banking business. The two different and distinct roles which the two banks were expected to play are conflicting and unreasonable because a truly co-operative bank can never be an efficient commercial bank and in the same way a commercial bank cannot be an efficient co-operative bank.

It is thus clear that the name 'co-operative bank' in

Nigeria is misleading. The banks are co-operative only in name, being in conception and operation commercial banks. This can be illustrated further by a cursory examination of the ownership and direction of loans and advances of some of the co-operative banks. Table 2 shows the ownership of the Co-operative Bank of Eastern Nigeria. As at March 1978, the bank was owned by four groups of shareholders viz. the

Table 2

Ownership Structure of the Co-operative Bank of Eastern Nigeria as at March 1978

Owners	Shares	Amount (N)	%
Governments	350,000	700,000	46.26
Co-operative Societies	166,083	332,166	21.94
Firms and Companies	18,603	37,206	2.45
Individuals	221,871	443,742	29.35
TOTAL	756,557	1,513,114	100.00

Source: Ojo, A.T. and 'Wole Adewunmi, 1980, Co-operative Banking in Nigeria: Evolution, Structure and Operations, Lagos: University of Lagos Press, p.22

Government, Co-operative Societies, firms and companies, and individuals. The dominant shareholders are the state governments. Individuals came second, and the co-operative societies, which are supposed to be the dominant owners of the bank, third. The ownership structure matters very much in influencing the mode of operations and objectives of the banks. Since the shares of the individuals are more than those of the co-operatives societies the bank is bound to operate as a profit maximising enterprise i.e. as a commercial bank rather than as a co-operative bank because it has to make enough profits to satisfy the interest of the majority of shareholders.

Furthermore, if the direction of loans and advances of the Co-operative Bank Limited is examined it will be seen in Table 3 that a total of less than 13 percent of the bank loans and advances went to co-operative societies.

Table 3

Direction of Loans and Advances of the Co-operative Bank Limited as at the end of March 1976

Recipients	Amount	%
Co-operative apex institutions	2,623,341	8.98
Other co-operatives	1,084,937	3.72
General commercial bank lending	25,493,568	87.30
TOTAL	29,201,846	100.00

Source: Ojo, A.T. and 'Wole Adewunmi, 1980, Co-operative Banking in Nigeria: Evolution, Structure and Operations, Lagos: University of Lagos Press, p.22

Ojo and Adewunmi noted that co-operative banks could not provide data in respect of the extent to which they have assisted the co-operative societies. The main reason given was that 'the banks function in the same way as the other commercial banks, placing little or no emphasis on financing the co-operative societies and their members as such. Loans were given to all customers on more or less the same basis with little preferential treatment for and no special attention paid to the need of co-operatives' (6). Another reason for not financing the co-operative societies is the fact that the banks' resource base is built around deposits from the general public just like the commercial banks. They have also tended to concentrate their branch network in the urban areas to the utter neglect of the rural communities which they are supposed to service. Consequently there is no distinction between the co-operative and commercial banks as to lending operations, investment of surplus funds, interest rates and so on.

Why Co-operative Bank Then?

Attempts have been made to show that co-operative banks in Nigeria leave much to be desired in the performance of their functions viz. dealing with primary co-operative societies and doing most of their business with the co-operative organisations, thus contributing to the development of the rural areas. It is nevertheless the belief of the writer that if the Federal and State Governments re-organise co-operative banking, ensuring that the banks are co-operators' or peoples' banks and no longer commercial banks, and if the monetary authorities pursue co-operative banking schemes (as they do with the rural banking scheme) as a strategy for rural development, the scheme is likely to succeed.

A number of reasons can be adduced to show why a co-operative banking scheme is likely to succeed in transforming the rural areas faster and in a more desirable way than the rural banking scheme.

First, with their rural orientation co-operative banks are in a better position than rural banks to understand the peculiar problems of savings and credit in the rural areas and hence the development needs of the rural community. And as they draw their major financial support from the rural co-operative societies they are identified with rural development.

Second, co-operative banking tends to combine loan extensions with savings mobilisation, a policy very much desired in financing the rural areas as it makes rural credit programmes productive and self-sustaining. In addition, the linkage of credit extension with savings mobilisation provides an incentive for participating co-operative societies and an avenue for local employment of funds harmonising with perception of self or small group interest.

The third reason is the untapped potential for savings in the rural areas. One reason usually offered to defend the commercial operations of co-operative banks in Nigeria is that the co-operative movement is not strong enough to offer the size of financial backing that will make the banks permanently solvent (11). The argument is that since the rural economy operates at near subsistence level there is very little that can be squeezed out of income and consumption. The notion that because people are poor they are incapable or unwilling to save does not seem to be supported by evidence. In fact a large volume of idle funds exists in the rural economy of many African countries. For instance Roberts (12) found a surprisingly high savings capacity in a study of 239 rural families in Zambia. His study showed that farmers saved, over a two year period, more than 30 percent of their income. Bauman and Harteveld, (13) in their study of the Indian states of Tamil Nadu and Kerala showed that the deposits made through credit and savings associations were equal to 20 percent of total commercial banks deposits. In Ethiopia the 1968-73 Development Plan estimated the annual savings volume through rotating savings credit associations to be 8 to 10 percent of the country's GDP. Similarly the review of smallholder credit in Kenya undertaken by the African Rural Development Study points out that the deposit by small farmers under the co-operative thrift scheme reached the quite un-anticipated figure of US $2 million by 1973 which was the scheme's third year (14).

These studies point to the fact that there might well exist large reserves of financial resources in the rural areas of Nigeria also awaiting productive mobilisation; the prime problem of development is how to gather them and utilise them productively. The solution is the establishment of rural based financial institutions to mobilise and channel these financial resources to the desired projects in the rural areas.

Co-operative banks being the co-operators' or peoples' bank enjoy depositors' confidence more than commercial banks as the suitable rural-based financial institution, will pave the way for the creation of more credit unions and multipurpose co-operative societies that may be better placed to participate fully in the development of the rural areas.

Co-operative banks, like the rural commercial banks, are operated by established organisation capable of undertaking planning, promotion, implementation and control functions. But unlike commercial banks which obtain their deposits from the general public and apply them accordingly to commercial profitability, the application of resources by co-operative banks is localised by their geographical source. The localisation and stratification of resources and loans by co-operative banks should ensure proper control by the societies and hence the communities on which the banks depend. In addition such localisation of resources will tend to compel the co-operative banks to devise a wide range of services to deal with the needs of the rural communities in which they operate and on which they depend for continued existence as a business concern. In other words co-operative banks will be more prepared to play the role of counsellor as well as financier, and act as real partners of enterprises.

The next important reason why a co-operative banking scheme is an alternative for rural financing and provides a strategy for rural development is that it fills the financial gap - the neglect of certain sectors of the economy, smallholders, and related production units in the provision of financial resources - created by the conservative practices of commercial banks and their rural branches. In doing this co-operative banks offer new opportunities for small rural savers by expanding the range of financial services available to the community, and for small credit borrowers by granting loans for projects which benefit the immediate community.

In dealing with the commercial banks, the small farmers and other rural borrowers face a number of hindrances such as complicated, cumbersome and time-consuming loan processing procedures; ineffective supervision, inadequate or complete absence of financial projection/planning and misdirected conception of the nature of farm credit (15). Added to this are the high rates of interest charged by commercial banks on loans and low rates paid on savings. The adoption by co-operative banks of personal, non-rigid non-involved procedures will be more appealing to the needs of the rural farmers and other small-scale borrowers and savers. To the average rural entrepreneur it is more important that his loan is adequate for its purpose and given without delay. The problem of financing rural development should not be confined to meeting the needs for credit and other inputs at a particular time but should be extended to meeting these needs adequately at every stage of the sector's development.

On the question of high interest cost of borrowing, it should be emphasised that the main objective of a co-operative bank is to offer greater access to saving and borrowing facilities to co-operative societies and their members at relatively cheaper costs than those provided by commercial banks. The small farmer and other small borrowers will obviously prefer co-operative banks with simple and low cost credit delivery system to the commercial banks. It is, however, a mistake to assume that as long as interest rates are low farmers will borrow. What matters for rural development and small borrowers is not necessarily the rate of interest but whether or not credit is available.

On this Ragazzi (16) rightly observed that the popularity of the informal money market, despite the usurious rates of interest, is evidence of the importance of availability rather than cost, in determining the demand for and supply of rural credit.

Finally, co-operative banking is very well suited to deal with the problem of the commercial banking collateral syndrome which inhibits lending to customers who do not have "acceptable" collaterals to pledge. With co-operative banking collective guarantee arrangements for rural loans will be possible. In addition, as partners in rural enterprises, co-operative banks will be better disposed to accept collateral securities available in the rural areas such as crops or cattle and real estates.

Conclusion

For any meaningful economic development to take place in Nigeria, the rural areas which comprise a greater proportion of the country should be modernised and developed. Lack of financial resources has been one of the greatest obstacles to rural development. The rural banking scheme which was devised as a channel for supplying credit to the rural areas is not suited to perform the function. Co-operative banking could provide an alternative scheme because it embraces the sort of financial institutions that are suited to the financial and other promotional needs of the rural areas.

The Federal and States Governments should be aware that at present there are no co-operative banks operating in the country. A re-organisation and establishment of co-operative banking is necessary. The monetary authorities should pursue with great vigour the co-operative banking scheme as a strategy for rural development. This does not imply abandoning the existent rural banking scheme - it should be a complement to a well-developed co-operative banking scheme.

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CROP AND LIVESTOCK INSURANCE FOR DEVELOPING COUNTRIES

by Trevor Lucey*

Farming is a risky business. Crops can be devastated by a host of calamities such as hail, windstorms, flooding, pests or diseases. It is logical to assume then, that measures designed to provide greater security for producers would have a positive impact on farmers' incomes and on agricultural production. Yet, experiences with crop insurance have been mixed. Large and costly publicly-administered insurance schemes in several developing countries have only partially achieved their objectives, and critics have suggested that the resources could have been more effectively allocated elsewhere in the agricultural sector.

However, there have also been successful experiences, and the lessons learned have pointed to ways of building up practical and viable insurance schemes in developing countries. The purpose of this paper is to highlight some of the key issues, outline the pros and cons of alternative methods, and suggest lines of approach which have the greatest chances of success.

The subject of crop and livestock insurance is not new to the International Federation of Agricultural producers (IFAP). It has been, and is, a topic of importance for farm leaders who discussed the matter at the IFAP General Conferences (World Farmers' Congress) in New Delhi in 1984, and again in Bonn in 1986. These meetings are not theoretical debates between academics. They are events for practical people who are looking for practical solutions. Moreover, the value of such exchanges of experience has been to expose the pitfalls and not to cover them over. Major points emanating from the meetings are that:

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- Crop and livestock insurance schemes will only succeed if farmers' organisations are fully involved in the planning and decision-making.

- Co-operatives and farmers' mutuals have a key role to play in the implementation of insurance schemes.

- Of all the options, the most feasible and promising is the linking of crop insurance with agricultural credit.

The key terms are thus Co-operatives - Credit - Insurance.

Background

The lack of insurance facilities for small farmers in developing countries provides testimony to the difficulties of operating viable crop and livestock insurance schemes. However, the existence of difficulties must not be an excuse to postpone the introduction of crop insurance and thus shirk responsibility in relation to a serious problem. The importance of agricultural credit is now universally accepted, but the question of protecting farmers from agricultural 'insecurity' has been largely neglected. Crop insurance is a necessary part of the institutional infrastructure essential for the development of agriculture which is basically a high risk venture.

Farmers are not insurance experts, and complex programmes - often initiated by governments and carried out by ministries or parastatals - have frequently been misunderstood by producers. In many instances, insurance has simply been perceived as an additional tax. This bad brand image is a major handicap for insurance in the rural environment. Moreover, it is well known that rural populations tend to harbour a deep distrust of city dwellers, so centralised city-based insurers are poorly accepted by farmers. The most successful insurance schemes are those which have been built up on a step-by-step basis, by organisations in which farmers are well represented and in which they have confidence.

APPROACHES TO INSURANCE SCHEMES

There are many options of how to operate crop and livestock insurance. Questions which are sometimes posed include:

- Which risks can most effectively be covered?

- Is crop insurance the means for developing agriculture or does it become necessary when agriculture develops?

- Should insurance cover yield shortfalls or should it be designed as "whole income" insurance?

- Is it feasible to cover total losses?

- Is it better to cover single crops or several crops taken together?

- How, and by whom, should insurance programmes be administered?

- Is it better to handle crop insurance within a framework or risk-specific insurance for fire, theft, accident and life insurance?

Yield versus total income insurance. Comprehensive farm income insurance is fraught with difficulty. The most workable schemes focus on yield and not on price variations. Crop insurance should aim at insuring specific crops against natural hazards, and cannot substitute for inadequate pricing policies.

A farmers' gross income is the product of the unit price received for all commodities grown multiplied by the yields per unit area of these commodities. A pricing policy which guarantees producers a remunerative return for their commodities is essential, and this needs to be backed up by effective marketing and input supply services to farmers. The problems of inadequate price and marketing arrangements in many developing countries are well known. But attempts by Third World governments to redistribute incomes from the urban to rural sector through crop insurance have not been successful: insurance cannot cover over inadequate pricing policies. Problems of price fluctuation must be handled through price and marketing policy.

Full versus partial indemnity. Experience has shown that, even with subsidised schemes, it is not a feasible proposition to insure 100 percent against losses due to yield shortfalls. Premiums become prohibitively high. Given that an actuarially fair premium for all-risk crop insurance is generally between six and fifteen percent, then farmers would have to pay premiums of between ten and twenty percent if insurance is to be self-financing. At this cost, it is not surprising that farmers have proved unwilling to purchase all-risk crop insurance voluntarily.

In practice, it is necessary to make a small production shortfall, up to a specified limit, non-indemnifiable. This reduces the premium and also the frequency with which indemnity becomes payable. Under a drought insurance scheme operated by a private firm in Zambia for commercial farmers, the policy only covers variable costs of the crop. Management, capital costs and profit loss are not covered.

Single crop versus multi-crop insurance. Particularly for larger farmers, insurance for a specific crop is a feasible proposition. One successful case is for tobacco in Zimbabwe. In this programme, selected farmers have themselves become assessors with the result that administrative costs have been kept very low. The building up of substantial capital deposits has enabled claims to be met in full.

However, there are advantages in having a crop insurance scheme for all major crops in an area taken together. Such schemes are generally of greater relevance to small farmers. Administratively it is simpler than taking several crops separately, most of all because the coefficient of variation in the overall productivity of all crops taken together is much smaller than the yield variability of individual crops. Such a scheme would involve a single premium and a single indemnity, based on a weighted average of the production indices of, say, three major crops.

Individual versus area approach. With the exception of relatively small schemes for commercial farmers, insurance systems tailored to each individual farmer are generally not practicable. The individual approach tends to be administratively expensive, liable to endless dispute and fraught with dangers of fraud.

The area approach obviates the main difficulties of the individual approach. It does not require ascertainig the crop outputs of individual farmers. All that it needs are estimates of average annual yields of crop(s) over preferably homogeneous, areas on a year-to-year basis. In effect, the area approach is a fair betting system. Participation could be entirely voluntary. So long as indemnities are paid pro rata to premiums received and are entirely based on the outcome of the chance system, it does not matter who participates and by how much.

Voluntary versus compulsory insurance. The greater the number of farmers who purchase insurance schemes in a given area, the lower the administrative (and hence premium) costs per participating farmer. This is the main argument for compulsory insurance, especially in areas where there are large numbers of small producers, for example in Japan where the average farm size is 1.1 hectares. Agricultural Mutual Relief Associations have been set up in Japanese villages and towns. When an association is established, all farmers in the district where planted acreage of an insurable crop is above a certain minimum automatically become association members. Thus, in effect, Japanese crop insurance is compulsory. The programme is generally rated as reasonably successful. However, T. Yamauchi (1) concluded that "the most difficult problem has been how to solve farmers' complaints against compulsory insurance. These complaints arose mainly from the disparity between the insurance benefits received by farmers in unstable areas and those received by the farmers in stable areas".

In developing countries, introducing compulsory insurance can create such a negative attitude by farmers, coupled with a feeling of lack of involvement, that the drawbacks of compulsory insurance for all farmers in the region, generally outweigh the potential or theoretical advantages.

Crop/livestock versus multiple-risk agricultural insurance. Agricultural development is a dynamic process. As a country's agriculture moves away from subsistence to become market-oriented, so the needs for insurance change and evolve.

Insurance is important for the emergent farmer who is being encouraged to move away from subsistence, towards integration in the market economy. This essential transition in agricultural development is invariably associated with greater risks, for example through crop specialisation, adoption of higher-yielding techniques, and obtaining credit to carry out these innovations. Increased risk on the one hand needs to be counterbalanced by compensatory insurance measures on the other. Without such assurance, farmers will continue to act conservatively, and resist change.

In addition to crop insurance, cover against livestock losses are important. The loss of an ox or cow may have dramatic consequences for the farmer who is nonetheless obliged to keep up loan repayments, even though he can no longer make use of the draught animal or obtain milk from the cow. Livestock insurance, however, is generally at least as difficult to administer as crop insurance, and there are very few successful examples. In Egypt, there is a system whereby subscribers pay a small monthly sum for which they receive free veterinary services and quantities of subsidised feedstuffs in excess of the standard quota. In the event of death 75 percent of the estimated price of the animal may be claimed.

For the commercial farmer, who has specialised into producing fewer commodities but at a higher risk, crop insurance needs are clear. Insurance can enable him/her to establish a cropping plan for high productivity and which fully reflects market requirements.

Farmers are confronted with many aspects of insecurity because their lives and property are threatened by a multitude of risks. In the case of crop and livestock insurance, Hazell, Pomareda and Valdes (2) conclude that: "Insured risks should be restricted to natural hazards such as hail, flood and hurricane damage. Such risks avoid the problem of moral hazard, and they can be easily monitored and the damage assessed at reasonable cost. Much of the data for actuarial calculations is also often available from local weather stations, and the risks can be evaluated at a regional rather than at the farm level".

A further conclusion is that there is considerable scope for the development of other types of risk-specific insurance for Third World farmers, including accident and life insurance, theft insurance for livestock and machinery, and fire insurance for buildings. An approach to implementing agricultural insurance, as opposed to purely crop insurance, is given in a later section of this article which draws on the successful experience of farmers' mutuals/co-operatives in France.

Figure 1

Agricultural Risks

- PROPERTY
  - buildings
  - livestock
  - crops
  - Natural
    - Climate - Lightening, fire, hail, windstorm, tornado, drought, flood, etc.
    - Sickness
      - Livestock (e.g. foot & mouth)
      - Plants (e.g. mildew)
    - Vermin - rats, locusts
    - Wild animals - snakes (e.g. cattle)
  - Human factor
  - Social & political: theft, war, changes in legislation (e.g. ownership rights etc.)
  - Economic
    - Lack of infrastructure (e.g. roads, storage & marketing facilities, purchase of inputs)
    - Price fluctuations, capital obsolescence
    - Economic progress (e.g. competition)
    - No markets, buyer insolvency
- PERSONS
  - Natural — Death, sickness, accident
  - Human factor
  - Political — Civil war
  - Social — Workmen's compensation
  - Economic — Inability to work (e.g. unemployment)
- THIRD PARTIES
  - Liability
    - Accident - damage to persons or property
    - Damage to the environment
    - Product liability
  - TP insolvency — To repair damage to
    - person
    - property

Source: J.Y. Nouy

CREDIT INSURANCE

Many theoretically-sound insurance schemes never get off the ground because of the formidable task of collecting premiums from small farmers on a regular basis. In some cases, for example for commercial farmers, this problem has been alleviated through compulsory participation of all farmers cultivating a specific crop in a specific area. But for the majority of farmers, it is by no means certain that collection of premiums will be easy, even with compulsory participation. Many farmers would simply view this as an additional tax to be avoided if at all possible.

Largely for the above reason, the linking of insurance schemes with short-term agricultural credit appears to be by far the most realistic and practicable approach to pursue. With credit insurance, the entire amount of the loan is normally insured, and premiums can be deducted from the loan advance. Therefore if a farmer obtains credit with which to purchase fertilizer, the value of the loan is automatically increased by a small amount to cover the insurance element. Assuming all goes well and a reasonable crop is harvested in the area, the full amount of the loan is repaid. If, however, yields are badly affected by drought, the loan (or at least a major part of it) is not repayable. Finally, if any farmer who is not a borrower decides to have his crops insured and is willing to pay the premium, the scheme could be extended to him on a voluntary basis.

Thus integrated with agricultural credit, the crop insurance will involve hardly any additional administrative costs. Moreover, the crop insurance effectively protects the agricultural credit structure from agricultural hazards. At the same time, it avoids the farmer getting into long-term debt due to non-repayment of loans. For the emergent farmer who is moving into the commercial sector, it is important to maintain credit worthiness at the bank. Crop insurance can play a vital role here.

Credit insurance can act as a catalyst for agricultural development by extending the credit market to groups of borrowers who previously could not obtain credit. This may happen if insurance sufficiently lowers the default risk of honest borrowers or if it converts assets that previously had no collateral value into acceptable collateral.

Premium rates should be set at a level which benefits the borrower and keeps the borrower/lender relationship intact, rather than simply protecting the lending institution with the farmer paying the price. In addition, the credit insurance system will obviously only operate effectively where there is already good administrative control over loan repayments. In Kenya, the minimum guaranteed return scheme (GMR) was discontinued in 1979 mainly because of the poor repayments of loans by farmers who had good crops and against whom little or no effective action was taken to enforce repayments. The scheme, for maize and wheat only, operated as an insurance against the repayment of a crop loan in the event of the harvested grain being less than the amount borrowed. The compulsory premium was four percent of the value of the loan and a government subsidy made up any shortfall in the cost of the scheme. In recognition of the potential of this system if administered effectively, it has recently been reintroduced.

Brazil's crop insurance programme (PROAGRO) was established in 1973 as a voluntary scheme to assist farmers in repaying their loans in the event of certain natural disasters. The programme suffered heavy losses during the first few years, and has survived with the aid of large government subsidies (58 percent of PROAGRO's revenue in 1980). A number of substantial changes have been made since 1980. Beforehand, it attracted only a small number of farmers who tended to be high-risk producers. It is now compulsory for all farm production loans. Instead of a standard premium of one percent, the premium now increases with the proportion of the loan covered and frequency of claims.

Finally, experience of credit insurance in Japan has been positive. T. Yamauchi (1) concludes that "A short-term credit system linked to crop insurance contributed importantly to increases in the production of staple food in the early postwar years".

ORGANISATION AND FINANCE

Role of government. Farmers' organisations could validly argue that financial assistance from government, in setting up insurance schemes or in subsidising premiums, is an investment for achieving higher production and avoiding expensive importation of food commodities. Indeed, some degree of government subsidisation seems to be a precondition to the financial viability of crop insurance schemes, particularly in the initial stages. However, subsidies should be used for the farmers' benefit, and not simply supporting increasingly costly administrative systems, as has been the case in some countries. Furthermore, if subsidies become a very large part of the insurance scheme's income, the question arises: if the government funds were not being used for insurance, would they nevertheless be employed for agriculture? If so, are there better ways of using the funds?

As far as organisation is concerned, one point is clear. If crop and livestock insurance schemes are administered exclusively by government officials, the chances of success are very small indeed. R. Roberts (3) states that "Crop insurance in developing countries is too full of opportunities for negative political influence for it to be handled by agencies vulnerable to political pull". Roberts draws on the experience of Costa Rica to illustrate this point. In the 1981/1982 crop season a drought in the rice producing areas resulted in losses estimated at nearly three times the official reserves (US$ 1.9m). Some 45 percent had been taken by the government for other purposes, leaving a fund of US$ 1m to meet indemnities of five times this amount.

Co-operatives and farmers' mutuals. The most promising organisations for administering crop and livestock insurance are those in which farmers are well represented. These include agricultural co-operatives, farmers' mutuals, and certain credit/banking institutions operating in rural areas. For effective low-cost administration, the organisation needs to be close to farmers and have their confidence. If commercial companies, usually based in capital cities, found it worth their while to provide crop insurance services to small farmers, they would already be doing so. Clearly such schemes need to be built on existing rural organisations. Moreover, the most successful insurance schemes are those where the initial impetus has come from farmers and their organisations, and not from government.

Mixed capital ventures. Interesting compromises with great potential include mixed capital ventures in various possible combinations, between public/commercial/co-operative organisations. Experiences in this domain are relatively new, and it remains to be seen if they can indeed reach a mass market, or if they will instead remain confined to relatively few large-scale farmers.

In Ecuador, the Compania Nacional de Seguros Agropecuarios was established as a normal insurance agency. The stock was purchased by both public and private entities. At the outset, the public sector held an overwhelming capital position. In addition, the central bank supplied the reserve. However, the by-laws are open to (and management openly seeks) new investors from the private sector. Co-operatives, mutual aid associations, organised producers, and other service or financial institutions can supply capital and participate as members of the board of directors. The insurer is in the private, non-profit sector, and as such operates as an independent entity controlled by its board of directors and regulated by the insurance laws of the country. The insurer is thus outside the government hierarchy and operates under its own rules and by-laws.

In Bolivia, a slightly different approach to the mixed-capital venture is being tried - a private sector, non-profit, mutual insurer. Aseguradora Boliviana Agropecuaria began as a government institution but is evolving toward a mutual institution in which the insureds themselves are the owners of the company. However, a professional management is retained to function as an intermediary and to protect the company's assets.

YIELD STATISTICS

Reliable estimates of yields, which can be obtained when necessary at very short notice, are a prerequisite to an effective crop insurance system. Indeed, the lack of such up-to-date yield statistics in the developing countries has been a major constraint hindering the development of efficient crop insurance programmes. However, new technological innovations could drastically improve this situation. Since the 1984 drought year in Africa, the Kenya Rangeland Ecological Monitoring Unit (Kremu) has been perfecting new technology for yield determination.

First, sample aerial photographs of selected areas are taken. These are to determine the percentage of land area in a district under the crop (e.g. maize). A second process of determining the yield per acre follows. This is done by the use of airborne digital photometers. To get as accurate results as possible, a district is divided into grid cells, some of them five kilometres square and others ten kilometres. The average yield of each 'cell' is worked out and from it the district average is taken.

The total land area in the district under maize is obtained through another aerial photographic process. This is used with the other information to work out the expected yield.

The methods were tested in 1984 when eight major maize growing districts in Kenya were surveyed and proved successful. The method was initially developed to survey maize yields, but it will also be useful in forecasting the yield of other grains. This system has many advantages over traditional ground surveys, because it is fast. Whereas it takes at least five weeks to survey 300 fields, aerial survey takes only nine hours. It is also possible with aerial photography to survey areas that are inaccessible by road.

FARMERS' MUTUALS: LESSONS FROM FRANCE (4)

It is clearly neither possible nor appropriate to transpose insurance structures from an industrialised country to a developing country. However, there are strong parallels between the agricultural insurance problems faced by French producers a hundred years ago and the situation in some developing countries today. The Assurances Mutuelles Agricoles (AMA) was created by small farmers who had no access to insurance at the beginning of the twentieth century. It is today an agricultural organisation with a long history of success, from which lessons can be learned. AMA has admittedly benefited from State support in the form of subsidies and tax allowances, but it has nonetheless shown its ability to respond to farmers' needs for security and provide economic impetus to the rural community.

In 1980, agriculture was the main economic activity and employed about 45 percent of the working population in France. Side by side with a minority of big landowners, farms were small, providing a small average income, because the bulk of their production was intended for local consumption.

The economic developments in the nineteenth century caused upheavals in traditional structures and new ideas, linked with the advantages of association, began to penetrate the countryside. In the fields of insurance, the farmers spontaneously created mutual insurance offices, known as "caisses" (5) to guarantee their livestock, and other "caisses" for mutual assistance. These offices were created with no legal support.

The meagre capital of the peasants consisted of their dwellings and the barn containing grain and fodder. But the most risky investment was the purchase of draught animals, whose death could compromise the economic survival of the farm. Farmers' federations encouraged the creation of local insurance "caisses" in the form of mutuals, whose members could exercise a personal and permanent control on each other. Their operation was both simple and pragmatic: the necessary funds were collected by the President at the General Meeting in order to compensate victims of losses on the spot, and when there was a surplus, it was distributed to the members.

This system of reciprocal insurance can only cover limited risks such as livestock, while hail, a major risk, cannot be covered because it requires a wide spread of risk. The success of these "caisses" was nonetheless considerable because the operating system was simple and costs were not increased by overheads. The persons who controlled them had confidence in the system because they took an active part in it.

A law of July 4th 1900 allowed the creation of Agricultural Mutual Insurance offices in the form of a farmers' federation. Farmers' mutual offices could henceforth be created without any administrative formalities and would be exonerated from the tax on insurance policies.

These offices were able to group together for reinsurance at a regional and national level. They were thus able to insure risks like fire and hail which require a wide spread of risk.

Gradually, local offices were set up in numerous villages specialising in individual risks. The "livestock" offices developed rapidly until 1910, because they were self-sufficient. The fire office appeared later, as and when internal reinsurance allowed a wider geographic spread of risks. The hail offices, which require a national spread of risk, only began to develop after 1935.

The local "caisses". These are administered by unpaid directors democratically elected by the members. An honorary secretary is responsible for collecting premiums, underwriting risks and settling claims. All the premiums are collected at the beginning of the year. Farmers are free to join or not to join these local "caisses".

Regional "caisses". Like the local "caisses", these specialise by class of insurance (hail, fire, livestock, accident). Their purpose is to reinsure the local "caisses" and they are created by the local "caisses" on the initiative of agricultural federations.

They are also administered by unpaid and elected directors. They progressively recruit paid personnel to organise the local "caisses", manage insurance applications and claims files, calculate regional tariffs on the basis of statistics, and manage the reinsurance activities.

Central "caisses". The central "caisses", also specialise by class of insurance, and are administered by unpaid elected directors. Their main purpose is to reinsure the regional "caisses" under an internal reinsurance scheme providing a national spread of risk. They were created between 1906 and 1925 by the regional "caisses". They made progressively greater call on outward reinsurance and also acted as spokesmen for the agricultural profession.

Agricultural developments led to increased needs for insurance (often linked with the development of credit facilities) which were not satisfied by the traditional companies because their acquisition costs were too high and because the peasants had no confidence in the city.

The mutualist structure made it possible to teach farmers the mechanisms of insurance in a climate of mutual confidence. It also favoured human promotion: tens of thousands of farmers have become directors. In this way, they have come to feel responsible for the organisation and have been trained in management techniques.

In 1983, the AMA consisted of 26,000 local "caisses", 68 regional "caisse" and one central "caisse ". It covered over 70 percent of French farmers and its premium income amounts to FF 8.45 billion or 7.2 percent of the non-life insurance market in France.

The structure has gradually been adapted to new requirements: the "caisses" specialising in different classes of insurance have progressively merged and each local "caisse" can now cover all non-life risks, which are then reinsured by the regional and central "caisse".

Whereas the first risks insured were very small (livestock, for example, at the beginning of the century), AMA now covers major risks by internal reinsurance (the big co-operative associations), new risks (credit insurance) and specific sophisticated crop insurance programmes (tobacco, forestry, seed-corn and poppy).

Conclusion

The aim of this paper is to put alternative crop insurance approaches into perspective. Special emphasis is placed on the role of co-operatives, farmers' mutuals and the linking of crop insurance with credit. Whichever approach is adopted, it is important to build up insurance systems on a step-by-step basis, for instance from small-scale pilot schemes in selected rural areas, involving the full participation of farmers.

In the case of subsistence farmers and the landless, it has been suggested that more carefully targeted relief measures and food-for-work schemes may be more appropriate than insurance as such. Furthermore, the whole concept of insurance is alien to many semi-subsistence farmers. In instances where natural hazards are seen as "Acts of God" - as parts of life which have to be accepted - education to alter attitudes and overcome taboos may be a prerequisite to crop insurance.

When a widespread disaster strikes, it is doubtful that conventional crop insurance is an appropriate remedy. For such cases, emergency or disaster funds are more suitable. These can be financed by an annual levy on marketed production, counterpart funds created by the sales of emergency food aid, national government finance, international funding (e.g. Stabex payments under the Lomé Conventions), or a combination of all four. In Tunisia, for example, a levy is imposed on agricultural commodity sales for a disaster fund. As with crop insurance, co-operatives, farmers' mutuals and other farmers' organisations have a role to play in establishing and operating equitable disaster funds.

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4. Excerpts of a report prepared by J.Y. Nouy, SOREMA, France at the request of FAO, reproduced here by kind permission of the author.

5. Originally, the French word "caisse" meant a cashbox and has come to mean an office.

BRITISH CREDIT UNIONS IN 1985: AN ANALYSIS

by R.D. Donnelly *

Credit unions are virtually unknown in the United Kingdom outside Northern Ireland. They are perhaps the best kept financial secret in the country. If more people knew of them there would be many more because the basic message of credit unions - savings and thrift allied to low cost credit - affects everyone regardless of creed, colour, status or political persuasion.

In other parts of the world such as the U.S.A. and Canada they are an important and integral part of the financial system. Although credit unions in the U.K. have grown over the last five years they are still very small. The purpose of this study is to examine what progress they made, their position in September 1985 (the latest date for which reliable information is available) and to consider what problems they face in their future development.

The present study of the position of British credit unions is the first of its kind. The figures used in this article come from the 1985 annual returns of the credit unions which they are required to send to the Registry of Friendly Societies by the 31 March after the year end concerned.

The survey covers 49 credit unions out of the 64 in membership of the Association of British Credit Unions Ltd. The other 15 had either not submitted returns or were of such small size as to be statistically insignificant comprising less than 9 percent of credit union total membership. There are a few other small credit unions not in membership of the Association but again they are statistically insignificant.

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* Association of British Credit Unions Ltd., Skelmersdale.

In 1985 the total number of members in credit unions affiliated to the Association of British Credit Unions was 17,727 of which 16,125 or 91 percent are covered by this survey.

Credit Unions - What are They?

Credit unions are financial co-operatives. They are regulated by the Registrar of Friendly Societies under the Industrial and Provident Societies Act 1965 and the Credit Union Act 1979. Their precursors in the U.K. were called "menages" in Glasgow, "tontines" in Liverpool, and many other names in other places. They provide two basic services to their members: convenient savings and cheap loans. In addition some credit unions offer bill-paying services and cheap life assurance to members. These members save on a regular basis and loans are available of up to £2,000 over their share level. The maximum level for shareholding is at present £2,000 making the maximum possible loan £4,000. The rate of interest charged is a maximum of 1 percent per month on the declining balance, that is 12.68 percent APR. *

The credit union is controlled by a board of directors elected at the annual general meeting of the members. Applications for loans are considered by the Credit Committee, also elected by members, who report to the board on the state of the loan portfolio. Internal audit is conducted by the Supervisory Committee, again elected, whose function is to ensure that the credit union's system of controls is working. Almost all British credit unions are volunteer-staffed, opening at most six hours per week, in church halls, community centres and citizens' advice bureaux.

Most credit unions in Britain are members of the Association of British Credit Unions Ltd. (ABCUL), which in 1985 had 64

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* annual percentage rate.

members. This central body provides insurance bonding, managerial and data processing services. About fourteen other credit unions, with very small memberships, belong to the Federation of Credit Unions, a very catholic organisation providing similar services to their members. The Association of British Credit Unions is affiliated to the World Council of Credit Unions: the Federation is not.

Credit Unions Internationally

While credit unions may be small in Great Britain this is not the case in other countries. Credit unions are large financial institutions in many countries, particularly in the old Commonwealth and the United States. They are also very large in Ireland, the Caribbean and parts of Africa and Asia. The following table indicates the position of the World Credit Union Movement in 1985.

The period of rapid advance in the global credit union movement is in the United States, Canada and Australia but is evident in Africa and Asia. This is recognised by the World Council and aid for such development is granted by the Council and by the Credit Union National Association of the United States.

Credit Unions in the United Kingdom

In the United Kingdom credit unions made very little progress, with the exception of Northern Irish credit unions, until very recently. There are many reasons for this lack of development. The principal reasons were the British people's lack of need for credit prior to the 1970s, and the different methods by which such credit, where it was needed, could be made available to all. Of course the price could be high but funds were always available when they were required and the well-developed financial sector in the country provided a safe, certain, and local base for savings. The consumers' co-operatives also provided a safe base for working class savings, and when their preponderance is considered it is not surprising that the credit union movement developing elsewhere never got off the ground in the U.K.

Table 1

Credit Union World Total 1985

	Credit Unions	Members	Deposits $	Loans $	Reserves $	Assets $
ACOSCA (African Confed. of Coop. Sav. & Cred. Assn.)	10,812	2,263,260	306,658,186	254,368,390	32,967,743	382,399,061
ACCU (Asian Confed. of Cred. Un.)	5,668	1,642,900	948,353,633	834,741,199	23,308,368	1,072,493,538
AFCUL (Austral.Fed. of Cred. Un.)	369	1,932,763	2,867,040,000	2,607,000,000	127,314,000	3,102,660,000
CCCS (Canad. Coop. Cred. Soc.)	1,482	3,872,115	13,179,000,000	10,471,000,000	-	13,360,000,000
CCCU (Caribb. Confed. of Cred. Un.)	413	571,204	276,543,147	271,451,872	10,494,651	313,444,782
COLAC (Lat. Am. Confed. of Cred. Un.)	1,879	2,136,159	455,849,612	395,906,004	17,117,763	666,256,301
CUNA (Cred. Un. Nat. Assn. of U.S.A.	16,282	43,209,327	113,433,600,000	77,215,700,000	5,411,931,000	123,468,800,000
Free-standing leagues	884	843,970	457,415,330	419,770,056	46,936,282	511,950,052
Total credit unions affiliated with WOCCU	37,789	56,471,698	131,924,459,908	92,469,837,521	5,670,069,807	142,898,003,734
Non-affiliated Organisations	27,828	24,918,937	15,322,549,109	10,698,625,995	697,232,689	18,178,132,328
Subtotal	65,617	81,390,635	147,247,009,017	103,168,563,516	6,367,302,496	161,076,136,062
Related societies	17,320	27,147,231	277,395,695,157	209,724,340,642	13,531,722,508	346,586,131,971
WORLD TOTAL	82,937	106,537,866	424,642,704,174	312,892,904,158	19,899,025,004	507,662,268,033

By the late 1970s the position had altered. The population of the U.K. was now much more of a consumer society and used to employing credit as a means of satisfying material desires. Banks had begun to withdraw from large parts of our cities and were becoming more involved with the wholesale money market than the retail sector, and independent retail co-operative societies which paid dividends into share accounts and thus accrued savings had virtually ceased to exist. By this time considerable numbers of people from Ireland and the new Commonwealth had emigrated to the U.K., bringing with them the good news of credit unions and how to organise them, and so credit unions began to appear in this country. By the time of the passing the Credit Union Act in 1979 there were 59 credit unions associated to the Credit Union League of Great Britain (now the Association of British Credit Unions Ltd.)

Table 2

Credit Unions in 1979

Number of Credit Unions	59
Members	10,300
Assets	1,034,000
Shares	964,000
Loans	834,000
Reserves	33,000
Average shares per member	93
Average membership of credit unions	174

Source: Credit Union League of Great Britain.

Growth Since 1980

The first legislation directly concerned with credit unions was the Credit Union Act 1979. At the passing of this Act, the position of the credit union movement was as outlined in Table 2.

The idea underlying the credit union movement is that credit unions are not primarily businesses but associations of people, closely knit by family or other bonds, who help each other in times of need. In order to preserve the bond it is recommended that membership of a credit union should not exceed 200 people. If more than 200 people want to join, then a second credit union should be set up. Unfortunately many credit unions tended to be the property of one family or, even worse, an individual, and when the 1979 Act introduced the requirement for 11 "competent officers" these credit unions had to struggle to survive and indeed many did not: after 1979 over 40 credit unions closed down.

The Position of all Credit Unions in 1985

Since 1980 membership of credit unions has grown by 72 percent. More importantly, shareholding has advanced by 241 percent, assets by 257 percent and loans by 301 percent. Reserves have grown sixfold in the five years under study and the average shareholding, though still too small, has doubled. In 1985 there were 64 credit unions and, for such a small collection of people this is no mean achievement and indications are that further substantial growth has occurred since then.

Table 3

Membership Size and Savings in 1985

Total membership	16,125
Average membership	329
Percentage of membership in in affiliation with ABCUL	91
Total shareholding	£3,334,045
Average shareholding	£206.76
Total assets	£3,745,883
Reserves	£206,314

Credit unions in the U.K. are divided into three categories according to their common bond. The majority are community credit unions where people have a communality of interest by virtue of living in a small tightly-knit district. Next are the associated credit unions formed round a profession such as taxi driving or a specific club or institution. They are followed by the numerically smallest group, the employee credit unions, where the common bond is the place of employment. There are 32 community credit unions, ten associated credit unions and seven employee credit unions included in the results (eight of the missing credit unions were wound up during the year and the remainder were in the process of closing).

Table 4 shows the difference between types of credit union with respect to these figures.

Table 4

Community, Associated and Employee Credit Unions: Membership, Shareholding Assets and Reserves - September 1985

	Community	Associated	Employee
Numbers	32	10	7
Members	8,617	3,979	3,529
Average Membership	269	398	504
Shares	£1,309,485	£1,309,911	£714,639
Average Shareholding	£151,970	£329,200	£202,500
Reserves	£86,298	£99,026	£20,990
Reserves for members	£12.79	£24.89	£5.95

As a general rule it can be said that success depends on membership size, member shareholding and good management. However, Table 4 shows that the employee and more especially the associated credit unions are setting the pace. Average membership and average savings are both much higher in the less numerous types of credit union than in the community ones. Reserves for members in the associated credit unions are double those of the community unions. The very low figures in employee credit unions is accounted for by the fact that all contributions are made by payroll deductions and there is thus less need for reserves to be held to cover bad debts. With the payroll system bad debts are largely covered by funds held for the employee such as lying in time wages, redundancy payments or other dismissal benefits, and from which any loan outstanding to the credit union can be cleared before the employee receives his parting payment.

None of the credit union sectors have enough members or enough savings but what movement there is can be found in the employee and, more especially, the associated sectors. One reason why community credit unions are lagging behind might be the insistence on keeping membership low as a policy to conform with "small is beautiful" philosophy. Of the 32 community credit unions whose members totalled 8,617, one - Dalmuir Credit Union Ltd. - accounted for 1,363 members or 15.8 percent of all community credit union members.

Lending Policies

Credit unions exist because people need to borrow money, not to save it. Nobody in the U.K. would join a credit union to save, under present legislation. People join to borrow and because they wish to finance that borrowing at the lowest possible rate of interest.

In 1985 credit unions in the sample lent out £4,117,141, made up of 10,501 loans, the average loan being for £255.32. It is interesting to note that this is only £48.56 more than the average shareholding, thus making the risk factor in credit union management very small. Of all the loans granted in the year 6,000 were for less than £250; 2,763 for sums between £251-£500 and 1,168 for sums between £501 and £1,000. Only 6 percent of all loans made (570) were for sums in excess of £1,000 with 83 percent being for sums of less than £500. This 83 percent used 50 percent of the total funds lent out. Two points emerge from this:

1. The loan portfolio is badly balanced, impairing controls.

2. The paperwork burden is increased dramatically - as a loan for £100 requires the same paperwork as a loan for £2,000 - and creates discontent within management.

The position is not much improved when the figures are broken down into sectors.

All credit unions lend at the lower end of the available range (community credit unions give 82 percent of their loans to members for sums of less than £500), the average loan being £172.38. This imbalance is even more marked amongst employee credit unions where 92 percent of funds are lent in sums up to £500, the average loan being £323.17. Only among associated credit unions is there any suggestion that credit unions are moving away from the first category of loan. Even here 54 percent of funds are for loans of less than £500, with an average loan of £374.75.

Several conclusions can be drawn from the loan figures. First is the positive factor that credit unions do fulfil an important role that other financial institutions do not, i.e. the granting of small unsecured loans to people who might not otherwise get loans except at very high rates of interest as they would be regarded as a high risk. Yet credit unions invest in their members' characters every day and as will be seen below, they do not in general have serious problems of bad debt. Where they do it is generally due to bad management and bad loans policies rather than bad investment. Credit unions exist to provide a large number of small loans to as many members as possible and have this as a central part of their loans policy, but it has the unfortunate consequence of limited growth: if the maximum loan a credit union will grant is restricted in order to satisfy the maximum number of members, there is little incentive to add to shareholding.

The second factor reinforces the tendency to stagnation introduced by the first, in that such a lending portfolio and restrictive lending policies cut credit unions off from that section of society which it needs most to attract, i.e. those people who have experienced a real growth in disposable income over the last six years, who have the ability to save and the desire to borrow coupled with the ability to repay. Yet these are exactly the people credit unions do not serve. During the last six years home ownership in Great Britain has risen from 56 percent to 62 percent, the highest recorded, largely due to people in these groups buying homes for the first time. But high costs of mortgages coupled with inflation has meant that such people could not get their credit needs served by a credit union. These people also require loans to improve their houses, put in central heating, double glazing, or to purchase a car. During this period (1979-1985), the average loan in a credit union rose from an estimate of £148 to £255, totally irrelevant to the needs of modern working people. It has been contended that those requiring larger loans can use banks or building societies.

This attitude towards loans has done more than anything else to restrict the growth of credit unions because it denies the primacy of savings. Without savings there can be no loans yet in credit unions there is little incentive to save. The situation is exacerbated by the low level of dividend paid on share capital which is examined below.

The individual situation of the different types of credit unions is no different. The associational credit unions have moved some way up the lending scale. The nodal loan for these credit unions was between £251 and £500. More surprisingly the employee credit unions have not taken this tentative step upwards in size of loan. No employee credit union gave a loan over £2,000 and only 8 percent of loans granted exceeded £500. In general the lending policy of employee credit unions is similar to community credit unions and in at least one case is more restrictive. Employee credit unions in Great Britain are unlike those in other parts of the world. In America employee credit unions are promoted by the employer as an employee benefit: in the U.K. the employer does not encourage credit unions although if the workers want to set up a credit union, the employer will meet the legal requirements regarding payroll deductions and office space.

Management

All credit unions except five are managed by volunteers. Even where personnel are employed their role is supportive rather than managerial. There was no professional management of credit unions in the U.K. at September 1985. Despite this credit unions have to survive in the market place and manage their affairs to the satisfaction of the Registry of Friendly Societies under the requirements of the 1979 Act. Failure to do so would result in a governmental order, known as Section 19, restricting the activities of the credit union, being applied by the Registry. During the year October 1984 to September 1985 no such orders were issued. The efficiency with which credit unions conduct their affairs (which include dividend on shares, the ratio of expenses to income, the actual interest yielded on loans as against the notional 12.68 percent and the level of reserves) should be no different from any other business.

Dividend on Shares

The return to savers in a credit union is very low. In 1985 it was 3.25 percent gross on average. The legal maximum under the 1979 Act is 8 percent gross and indeed several well run credit unions did pay the maximum, but many more paid none at all. The associational credit unions paid the maximum average, 4 percent gross, while employee groups paid 3.3 percent gross and community groups 2.5 percent gross. This lack of return restricts the amount invested, though a certain proportion of personal disposable income (PDI) is likely to be placed in a low interest bearing account if the opportunity cost of doing so is outweighed by the other benefits accruing to the investor, in this case, cheap loans. Unfortunately the percentage of PDI so placed will be relatively low if the amount available for loan becomes less, or less relevant, to the needs of the member.

However, to offset the poor return on shares are the facts that a) most people do not join credit unions primarily to save; b) savings are of such a low level the loss of say 4 percent that could be made through alternative investments is meaningless; c) in many housing schemes where credit unions operate there is no alternative financial institution; and d) a 4 percent loss on dividend is offset against 20 percent saved on loan charges. Provided credit unions are content to be small peripheral institutions these arguments make sense. But if there is any desire to grow they are irrelevant. If the need to attract savings by paying meaningful rates of interest is not recognised by the regulators as well as by credit union boards there is little future beyond present levels of development for British credit unions.

Income and Expenses

Income for credit unions comes from the loans made to members. The interest they pay notionally approximately 12.68 percent APR or 1 percent per month on the outstanding balance) plus entrance fees and an annual service fee are the main elements of income, the greater part being from the interest on loans. As the rate of interest is fixed the total income is not very flexible. From that income expenses for many headings have to be met, including auditing, insurances, data processing where appropriate, committee members' expenses, rent of premises, normal office expenses, and provision for reserves, bad and doubtful debts. While in 1979 it might have been possible to pay these expenses and a dividend of 8 percent out of a potential income of 12.68 percent on loans, it was impossible in 1985. It is therefore not surprising to find that all credit unions have expenses to income ratios well in excess of the 40 percent which foreign credit unions would regard as high. The U.K. average is 68.7 percent (employee 57.9 percent, community 68.12 percent and associational 77.34 percent). Only if the government agrees to allow credit unions to vary the rate of interest chargeable on loans in order that a meaningful dividend can be paid to savers can this particular problem be solved.

Looking at the separate types of credit union, employee credit unions have the lowest ratio, because of the help they get with overheads. Associated credit unions have the highest ratio because two of the ten surveyed pay full time staff, higher reserves, and have more adequate provision for bad debts.

In all credit unions there is considerable need for improvement because if the dividend on shares is not increased there will be a diminishing pool from which loans can be financed. More attention should be given to income generation, for example increased entrance fees, realistic annual service charges for members, etc. The cost of servicing accounts in a community credit union is £11.53, in employee credit unions £12.06 and in associational unions an exceptional £19.97. In most cases no annual fee is charged but if it were the dividend rate paid on shares could be higher which could also be an incentive to members to use the credit union.

Returns on Loans

Credit unions all charge 1 percent per month on the outstanding balance. However, credit unions not using data processing use the table published by the Association of British Credit Unions Ltd., which gives a slightly lower return as interest accrues on bands i.e. £49 - £53 balance is charged the same interest rate, that is 12p per week. This reduces the actual rate of interest to 12 percent. Therefore a well managed credit union should get a 12 percent return on money lent out to members.

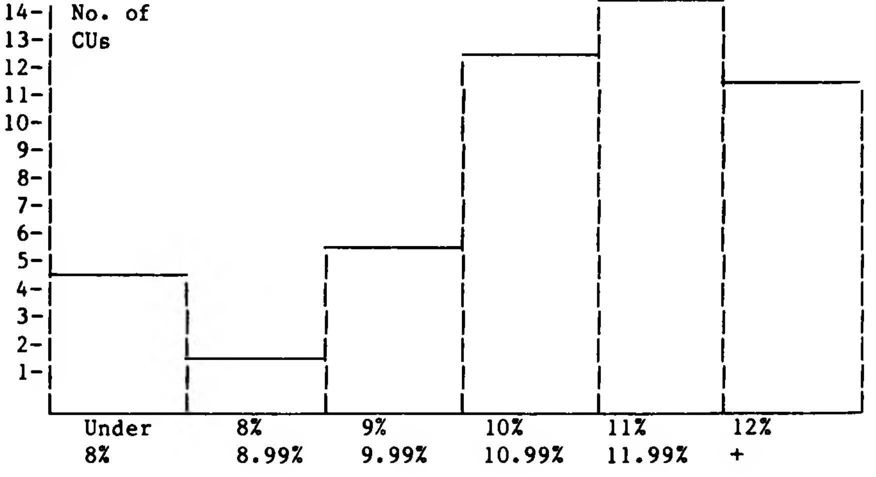
The figures for the movement as a whole are 10.7 percent, giving a shortfall of 10.8 percent, and for each sub group

Employees Credit Unions	11.1 percent
Associated Credit Unions	11.4 percent
Community Credit Unions	10.3 percent

giving shortfalls of 8 percent, 5 percent and 14 percent respectively.

Figure 1

Number of Credit Unions Achieving Stated Returns of Interest on Loans



As can be seen from Figure 1 there is a wide variation but in general terms most credit unions perform satisfactorily in this respect.

The Level of Reserves

The legal requirement laid down in the Credit Union Act of 1979, is that credit unions must build up reserves to a level whereby they are equal to 10 percent of assets as a minimum. In practice this has not yet been achieved but progress is being made. The figures for the year ended September 1985 are 5.5 percent for all credit unions, 5.9 percent for community credit unions, 6.7 percent for associational credit unions and only 2.6 percent for employee credit unions.

Credit Unions and the Banks

Credit unions are not in competition with the banks as they provide an important service which the banks would find too costly to provide - a collecting point for small savers. They save the banks the expense of handling very small accounts. By doing so they provide banks with one large account instead of three or four hundred small accounts. The banks used by the credit union movement are as shown in Table 5.

Table 5

Where Credit Unions Bank

Bank	Amount of Share Capital	Percent of Share Capital
Co-operative	596,053	16
National Westminster	1,363,270	37
Royal Bank of Scotland	930,049	25
Others	839,288	22

Two interesting facts arise from this, first the poor showing of the Co-operative Bank, and second the very good showing of the National Westminster Bank. The Co-operative Bank has only one account of significance representing over 90 percent of its total take.

In contrast the National Westminster Bank is held in high regard by credit unions. When credit unions first came to this country many banks were suspicious, and some not interested. The National Westminster made credit unions welcome, and holds the loyalty of many credit unions.

The Position of British Credit Unions in 1985

While this study is not exhaustive and there are all the reservations associated with sampling, the conclusions reached here can be regarded as at least giving a picture of British credit unions at September 1985. That picture shows that credit unions while growing are still peripheral in their marginality. They are still basically lending clubs with rules, tontines with strings attached. There can be little doubt that is how many of their members see them and how they wish them to remain. There is no desire on the part of most credit union offices to adopt growth as their prime target as they perceive it would be almost impossible for many of them to handle. The study also illustrates that where there are competent officers credit unions can and do grow. These credit unions are more likely to be found in the associational group than in the other areas where however they are not unknown. Indeed analysis of the returns on an individual basis demonstrates the fact that it is the quality of management rather than type of common bond that determines success or failure.

Given an improvement in management the greatest bottleneck credit unions have to negotiate is that of attracting more savings and that is incapable of solution without a re-examination of their lending policies. If credit unions are to prosper they must attract more savings. In order to do that they must reflect the credit needs of the widest possible cross section of the population and not concentrate on one area to the exclusion of all others. In order to do that the average loan has to be much larger and the running of the credit union has to be more efficient in order to pay a higher dividend.

There is evidence that the control of bad and doubtful debts could be improved especially in community credit unions where there are still to be found those who view credit union almost as a religious experience rather than a business activity. A shortfall of over 14 percent in loan interest is dangerously high and could lead to closure in some cases if remedial action is not taken.

There is still great potential for the growth of credit unions. The movement and its consultants would be well advised to concentrate on improving the marketing and managerial capacities of those credit unions in all three types of bond, which already show they can handle growth, rather than concentrate on one particular type of common bond. There is expertise, potential, and ability in all types of credit union and these qualities have to be nurtured and developed so that the entire credit union movement may move from its present position.

At September 1985 the average credit union was involved in granting small loans to people who might not otherwise have been able to obtain credit at reasonable rates from other sources. While this activity is noble and worthwhile, the wider population of Great Britain remains unaware of credit unions and their potential. It is this lack of awareness and their lack of relevance to modern needs that has to change.

THE CO-OPERATIVE MOVEMENT IN GRENADA: ADMINISTRATION AND DEVELOPMENT

by S. Jayahanthan *

Co-operative Movement - An Overview

Despite the differences in their policies, all successive governments in Grenada have given due importance to, and provided the impetus for co-operative development. For reasons enumerated later in this paper the co-operative movement as a whole did not emerge as vibrant as desired and did not therefore greatly affect the economic and social development of the Grenadian community. Casualties among co-operatives in the early stages in a developing country are not unusual but in Grenada the mortality rate has been remarkably high.

The most important institution that provides supporting services to the co-operative movement is the Department of Co-operatives which is a division of the Ministry of Labour, Co-operatives, Social Security and Local Government. This aspect will be dealt with later on in detail. From within the movement the Co-operative Credit Union League, to which the credit unions are affiliated, looks after the development and the general welfare of the credit unions.

The first society to be organised was a credit union known as the Public Service Credit Union, started in 1946. This is one society that has stood the test of time and remains today as one of the best societies, providing very good services to its members. It was registered along with another sixteen societies in 1958 consequent to the enactment of the Co-operative Societies Ordinance which took

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place in 1955. (In Grenada the co-operative movement was born before the enactment of the co-operative law).

Up to the time of writing a total number of 119 societies have been registered, but only 36 societies are functioning. Of the 36 societies 20 are credit unions.

There are also eight societies in the making, usually referred to as pre-co-operatives. These would under normal circumstances eventually qualify for registration.

The functioning societies can be classified as follows:

a)	Agricultural workers:	2
b)	Agricultural marketing:	1
c)	Handicraft and industrial:	4
d)	Fisheries:	3
e)	Restaurant:	2
f)	Building construction:	1
g)	Commercial transport:	1
h)	Food processing:	1
i)	Auto mechanic:	1
j)	Credit unions:	20
		36

Those shown at a), c), e), f), and i) are societies primarily intended to provide employment to its members who are workers. Two fishery societies, one transport society consisting of vehicle owner drivers as members, and the auto mechanic society were registered during the period between October 1985 and August 1986. The first three hold much promise and it is hoped that they will emerge as efficient and viable societies.

The agricultural marketing society refers to the Minor Spice Co-operative Marketing Society registered in 1971. The society handles the collection and marketing of all minor spices produce like cloves, cinnamon etc. (other than nutmeg). The trade in minor spices by this society is a monopoly provided by a special act passed by the People's Revolutionary Government. Although there are about 2,600 farmers engaged in the production of minor spices having dealings with the society, only 349 persons are members of the society. Being a monopoly, all trade from members as well as non-members is handled solely by the society. As a matter of practice over the years all minor spice farmers who use the services of this society have been allowed to take part in the proceedings at general meetings of the society and are entitled to receive patronage refunds.

This anomalous situation of non-members taking part in decision-making with no risks entailed is a matter recognised as one to be rectified in due course.

The position in regard to the membership and capital shown by the following Table is interesting. One will discern from the figures that there are heavy arrears in the payment of shares especially in the non-credit union type of societies. In the entire co-operative sector the total membership represents 7 percent of the population (115,000) of Grenada. The total membership in societies other than credit unions represent only 0.5 percent and this points to the vast scope for promoting co-operatives in sectors like agriculture, fisheries, handicrafts etc. Consumer societies and agricultural supply co-operatives are conspicuous by their absence in Grenada at present.

The Artisanal Fisheries Development Project services individual fishermen as well as fishery co-operatives. The organisation provides:

- necessary inputs such as oil;
- fishing equipment at subsidised prices;
- general supervision and advice on operations in general;
- technical advice and assistance in improving techniques and methods of fishing;

- loans for the purchase of engines and boats;
- a guaranteed market for the produce - in other words the organisation takes over the excess unsold fish and sells them; and
- cold storage facilities.

Table 1

Membership and Capital

Registered Societies		Number	Members	Share Capital E.C. $
A.	Credit unions	20	7,798	6,186,561.00
B.	Other types:			
	a) Agricultural workers	2	8	150.00
	b) Agricultural marketing	1	349	3,095.00
	c) Handicraft and industrial	4	38	687.00
	d) Fisheries	3	75	2,000.00
	e) Restaurant	2	15	1,200.00
	f) Building construction	1	11	1,000.00
	g) Commercial transport	1	80	4,550.00
	h) Food processing	1	15	-
	i) Auto mechanic	1	14	2,000.00

N.B. The Co-operative Credit Union League has not been included being a secondary society.

All societies registered are of the limited liability type although the law allows the formation of societies where the liability of members is unlimited.

SECTORAL VIEW

Credit Unions

The credit union sector represents the strongest arm of the co-operative movement. Its growth has been slow but not steady. Only about 20 percent of the functioning credit unions work at a level of normal efficiency - general efficiency is not as rosy as the picture shown by the figures of total membership and total share capital. The cardinal objectives of the credit unions are to promote thrift among their members and to provide loans for productive and provident purposes. By far the greatest financial benefit to members is insurance protection on loans, and the protection on the lives of members to the extent of their savings which is doubled in the event of death. Higher needs than the level serviced by the credit unions are at present met by commercial banks. Seven of the credit unions are employee based and the rest are community based.

In most societies the volume of business is quite inadequate to have paid full-time operational management staff; they have to depend on the voluntary service given by elected officers. In fact the smallness of most credit unions has been over the past years viewed with serious concern.

The Registrar of Co-operative Societies in his Annual Report for the year 1977 stated "The only real hope of success for some of the small co-operatives is to be found in amalgamation. At present their operations are too small to be meaningful and their modest existence tends to give their members the false impression that co-operatives were intended to be only small and insignificant groups of poor persons".

The biggest problem facing the credit union movement is that of delinquency in the repayment of loans by members. The cause has popularly been attributed to the ineffectiveness of the arbitration procedure as laid down in the Co-operative Law. The Registrar in 1977 further stated "This has created serious collection problems in co-operative societies. It strikes at the root of development and expansion". If this problem gnawed the Registrar in 1977 the situation is even worse today with the progressive increase in the level of delinquency. Presently an average of about 25 percent of the total share capital in the credit union sector is in default of payment, so that the operational efficiency of the credit union movement is restricted to that extent financially. Although the Registrar has the power to settle a dispute, or appoint an arbitrator to do so, and the award is enforced as if it were a judgment of a civil court, there has been uncertainty about the procedure to be followed in the enforcement of the award if the defendant (defaulter) fails to honour it. However a procedure has now been decided upon to be followed by the Registrar who will take the case of an "un-honoured" award to court for the enforcement to be put to the test.

The Co-operative Credit Union League which provides insurance services, training, stationery supplies, management assistance, field services and promotional services to credit unions, is managed and run well within its limitations. It is able to pay for proper management out of grants and technical assistance received from overseas organisations. The League is affiliated at the regional level to the Caribbean Confederation of Credit Unions (CCCU) formed in 1972 and now based in Barbados. The CCCU is a successor to the West Indian Conference of Credit Societies formed in 1959 for the promotion of credit unions in the region.

Agriculture

If harnessed properly the greatest potential for co-operative development lies in the field of agriculture, not only because agriculture is the main and the most stable occupation but also because of the large proportion of smallholdings. There are 7,643 smallholdings out of a total of 13,546 agricultural holdings. The small farmer is best assisted through co-operatives.

Major cash crops like banana, nutmeg and cocoa at no stage of production operate through the co-operative movement today. There are only three agricultural societies functioning. One is a marketing society, namely the Minor Spices Co-operative Marketing Society referred to earlier. This society is involved in the marketing of minor spices mainly in the export market. It does not offer services such as the provision of fertilizers, loans and other inputs for improvement of production. The society is working at a level of normal efficiency.

The other two societies are Tivoli Young Workers Co-operative Society registered in 1975 with a membership of 14 and The United Workers Agricultural Productive Society registered in 1981. These two societies now function at a low level of efficiency. They were formed with the main objectives of providing employment to young people but as has been the fate of all collective worker productive societies, these too are on their way out. In the socio-economic environment in Grenada collective production, especially in agriculture, will not yield positive results for it is difficult to sustain the momentum in collectivism. For any progress there should be a strong element of individual ownership.

Around 1965 there were 16 banana marketing societies of which 11 were functioning when the Marketing Board began to deal in farm products. They handled a substantial portion of the banana trade but with the advent of the boxing plants placed at vantage points farmers found it more to their advantage to deliver to the boxing plants direct, rather than through their co-operatives. This progressively reduced the activities of the co-operatives and ultimately the majority became dormant.

Another society worth mentioning was the St. David's Cocoa Fermentery Co-operative Society registered in 1962. This society rendered valuable services to its members especially in processing and marketing but is now, like other agricultural societies such as citrus growers societies, poultry and livestock societies, defunct.

Export marketing and other services relating to the major trade crops like banana, nutmeg and cocoa are now looked after by the respective statutory bodies.

Fisheries

The other area where there is ample scope for co-operative development is in fisheries. The main centres of fishing are St. George's, Gouyave, Sauteurs and Grenville. Almost the entire fish caught come from small boats which are either owned by individual fishermen or by non-fishermen, some owning more than one boat.

The problems faced by fishermen are in the procurement of gear, tackle, gasoline, lubricants and cold storage facilities. Some of these have been to a measurable extent provided by the Artisanal Fisheries Project at subsidised rates. The Project has been in the recent past actively engaged in organising fishermen into groups with a view to forming co-operatives. The Soubise Fishermen's Co-operative Society in Grenville and the St. Mark's Fishermen's Co-operative Society in Victoria, both registered in June 1986, were two such groups, formed for easier access to gasoline and other supplies and to free themselves from the clutches of vendors. The Fontenoy Fishermen's Co-operative registered in 1980 is functioning but at a low level of efficiency.

The Co-operative Department co-ordinates with the Artisanal

Fisheries Project, the former concentrating on the co-operative aspects and the latter on the technical aspects.

Industries

The part played by the co-operative industrial sector has been negligible. Presently there are two societies engaged in woodwork, one in printing, and a women's society in sewing and the manufacture of garments. There is also one society involved in the production of crafts. The members in these societies own the equipment, procure raw materials and sell the products co-operatively. The capital for the formation of these societies has come from outside sources.

Some of the factors that retard the progress of these societies are the small membership - and lack of assured markets for the products, which are in competition with similar products manufactured by the private sector and imports. Having recognised some of these problems an intensive training programme funded by the Canadian Union of Co-operatives through the Agency for Rural Transformation based in Grenada is being undertaken, co-ordinated by the Co-operative Department.

School Co-operatives

According to the Annual Report of the Registrar there were 32 un-registered but recognised school savings societies. There were also two registered school co-operative societies. There is no evidence that school co-operatives have received the attention of the Co-operative Department (except in the provision of stationery etc.), in the manner that other types are looked after. St. Joseph's Convent in Grenville has come up with the idea of establishing a co-operative consisting of senior students and teachers as members to run a tuck shop and for the supply of basic items of stationery.

CO-OPERATIVE DEVELOPMENT: PRESENT SITUATION

Although the co-operative movement in this country is forty years old it has not grown into the virile and healthy movement that might be expected of long years of experience. Its impact on the economic and social development of the Grenadian community is negligible, and does not match the enthusiasm and encouragement shown by successive governments for co-operative development.

In the credit union sector, the enormous volume of loans in default of repayment by members and the delay in audits are two of the main factors that have thwarted their further progress.

In the entire co-operative movement only about 6 percent of the societies function at a level of normal efficiency. The rest are either marginally efficient or are working below efficiency level. (The four newly registered societies, namely the two fishery societies one at Victoria and the other in Grenville, the Commercial Transport Co-operative and the South St. George's Auto Mechanic Society have not been taken into reckoning for this purpose as this is too early a stage to determine their levels of efficiency).

Some of the most important factors that have retarded the progress of the growth of co-operatives may be said to be:

a) Lack of management skills. Incompetent management has resulted in inferior services to members, the consequent dwindling of their loyalties and confidence in the society, and eventually their withdrawal.

b) Lack of education and training generally among committees of management, co-operative leaders and members. This inadequacy is felt not only in the area of co-operative ideology and practices but also in the area of operations and technical management.

c) The size of societies. This means inadequate resources, the most important of which is capital, to enable the society to operate viably as an economic venture, especially in the non-credit union types of societies, where there has been over the years an absolute lack of stress on the need to build up own capital. Instead, what is evident is a great deal of dependance on capital from outside sources.

d) Major political changes and the consequent changes in the approach and attitude to co-operative development.

e) Periodic migration abroad of a large number of persons, especially in the lower income groups, but also those who could provide the necessary leadership and initiative in the running of co-operatives.

f) Ill-conceived formation and hasty registration. Co-operatives have sometimes been formed, not to satisfy the felt needs of the members, but to obtain statutory recognition in order to receive aid and donations and/or because it was convenient for some organisations to deal with bodies registered as co-operatives.

g) Inadequate supervision and guidance over the yers from the government agency for co-operative development which is presently the Department of Co-operatives. This includes delays in auditing and the resultant inability of societies to hold their annual general meetings. The annual general meeting is the most important event each year in the life of a co-operative society. The matter of departmental assistance is further discussed later on.

Department of Co-operatives and Supervision

Unlike its counterparts in the rest of the Caribbean region the Co-operative Department in Grenada has had a rather chequered existence. After more than 20 years of its existence, with the Registrar of Co-operatives as its Head, the Department was done away with during the time of the People's Revolutionary Government and in its place was installed the National Co-operative Development Agency (NACDA), a statutory body to look after the affairs of the co-operative movement.

NACDA came into existence on the 21st April, 1980. The statutory functions of the Registrar under the Co-operative Law came to be performed by the General Secretary to NACDA. The main thrust of NACDA was (a) to bring as much land under cultivation as possible and (b) to provide employment to youths. To this end, in the formation of societies emphasis was laid on the collective worker type of production societies. 35 societies were registered during its tenure of office and most of them are today defunct. In the final analysis, the aspirations of NACDA were not realised due perhaps to the facts that there was no demand for collective farms as most small farmers owned individual plots and the youths were not given enough incentives for the co-operation.

Subsequently, after the fall of the People's Revolutionary Government, NACDA was liquidated during the term of office of the Government of the Interim Council, and in April 1984 the Department of Co-operatives was restored. In December 1984, when the New National Party Government took office, co-operative development was looked after by the Ministry of Labour, Co-operatives, Social Security and Local Government. At present the Department is headed by the Registrar and assisted by seven other officers of whom one is the Senior Auditor, five are field officers and one is clerk to the Senior Auditor.

There is also an Adviser assigned for a period of two years under the Commonwealth Fund for Technical Co-operation to assist the Department in co-operative legislation, education and training.

In a developing country like Grenada one of the most important resources for the development of the co-operative movement is an efficient Co-operative Department. Another important resource is an efficient secondary society engaged in providing services to the primary societies. The Co-operative Department and the secondary societies should be partners in providing supporting services to the primary societies. One vital area where services could be provided by a secondary society is in supervision. The ideal would be to work towards a situation where the development services provided by secondary societies would be progressively increased while those by the Department would be progressively decreased. In Grenada, to reach this ideal situation it will take many more years, but as far as credit unions are concerned the secondary society of credit unions, namely the Co-operative Credit Union League, is to a considerable extent self-reliant in servicing credit unions, thus enabling the Co-operative Department to concentrate more on other types of societies.

The efficient functioning of the Co-operative Department today is constrained mainly by lack of experience, training and adequate transport facilities to meet the societies' needs for supervision.

Supervisory services in the field should cover:

- helping a newly-registered society to take proper decisions both at committee meetings and at the operational levels with periodic visits;

- devoting all the time, energy and other resources on the supervision and internal development of existing societies instead of promoting new societies. However, if requests for new societies arise the Department should examine their economic feasibility and long-term viability;

- attending a society's committee meeting in order to assist the committee to take proper decisions for proper management, and to assess areas of weakensses;

- visiting the society to follow its progress and supply advice and guidance on any problems and defects;

- examining the books and working procedures and providing on-the-job training in matters like account keeping;

- reporting problems encountered to the Registrar for solution;

- reporting back to the Registrar;

- ensuring that books are ready for audit.

Registration of societies, inspections, enquiries, settlement of disputes, liquidation are some of the other functions that the Registrar has to perform and these are statutorily provided for.

The following tasks lie immediately before the Department:

- to bring to a level of efficiency societies which are at present working below this level;

- to improve and expand societies working at a level of normal efficiency;

- to revive defunct societies that could be viable;

- to liquidate defunct societies that have no prospects of revival;

- to assist in the formation of new societies which would be economically viable and feasible;

- to make working procedures more efficient so as to dispense completely with 'Management by Crisis";

- to provide formal and in-service training to the officers.

The Department should develop a sense of definite direction to provide leadership for its growth and development.

Co-operative Audit

One of the most important responsibilities of the Department of Co-operatives is the audit of the accounts of co-operative societies every year at the end of the financial year of each society. Over the years the co-operative movement in Grenada has accumulated a backlog of audits. At the end of the 1985 the Department had on its hands a total of 78 audits to be done and by December 1986 some 112 audits of which only 34 have been completed. The performance for the year 1986 is a 30 percent increase over that of last year due mainly to the manner in which the audit work had been monitored and also to the frequent deployment of field officers whenever possible to do audit work.

Due to delays in auditing many societies have had to put off their annual general meetings. This problem has been more serious in the credit unions sector: in some societies committees became either dictatorial or non-functional, officers committed malpractices and the general membership became apathetic and disinterested in the affairs of the society. Having viewed this problem with concern the Minister initiated a temporary amendment to Rule 19 (calling for an AGM as soon as the audit is received by the Committee), valid for a period of 18 months, to enable credit unions to hold their annual general meetings without the receipt of the audit report.

Delays in the audit of societies have been due to shortage of staff, inability of officers of the society to do accounting and prepare trial balances, inadequate deployment of existing staff to perform audit functions, delay in posting of accounts in the societies, inability to trace documents, and the auditor having to perform the functions of a book-keeper and auditor.

Education and Training

It would be ideal if the functions of education and training for co-operatives were in the hands of the co-operative movement itself. As this will not be possible in Grenada for quite some time, education and training has to be the joint responsibility of the Co-operative Department, the secondary societies and volunteers from within the movement.

Although one of the most important needs of the co-operative movement in Grenada is education and training, neither the Co-operative Department nor the Credit Union League is in a position to meet this need fully due to lack of trained persons, training equipment, and training materials. The Department already provides a regular weekly ten minute radio programme called "Co-operative Spotlight" and publishes a quarterly newsletter termed "The Co-operative Review". And there is now a general agreement between the Co-operative Department and the Credit Union League that in future both organisations will collaborate to share the responsibilities of education and training for credit unions.

Training programmes would ideally also include inputs from the Ministry of Agriculture, the Artisanal Fisheries Unit and other relevant organisations for technical knowledge.

Co-operative Legislation

The co-operative law of Grenada is constituted of the Co-operative Societies Ordinance No. 15 of 1955 and No. 7 of

1968, the statutory rules made under the Ordinance (1957) and the by-laws of co-operative societies. The Peoples' Revolutionary Government, by passing a special provisions act, provided for the monopoly of the Minor Spices Farmers Co-operative Society to trade in minor spices. During this period minor amendments were also made to the Ordinance reducing the minimum number of members constituting a co-operative society from ten to five.

The Co-operative Societies Ordinance of Grenada is based on what is called the "Indian Classical Pattern" and is therefore in many ways similar to the basic co-operative law of many developing countries which were formerly British Colonies.

The present Act has the following important features:

- It provides a general legal framework for all types of societies functionally.

- It provides for the registration of two types of societies structurally, namely (a) "a society which has as its object the promotion of the economic interest of its members in accordance with co-operative principles", i.e. a primary society and (b) "a society established with the object of facilitating the operations of such a society" i.e. a secondary society.

- It confers a variety of powers on the Registrar of Co-operatives including the power of registration, inspection, inquiry, audit, settlement of disputes, cancellation of registration of societies and liquidation.

The need for the revision of the co-operative law in Grenada had been long felt and is in preparation by the Adviser on Co-operatives.

The following main new features are included in the draft act:

a) In the matter of registration of primary societies a primary society has been described in greater detail.

b) Primary societies are formed not only to promote the economic interests of members but also to promote their social and cultural interests.

c) It provides for the qualification of members to be more relevant to the services and objects of the society.

d) It provides for the requirement to conform to co-operative principles but the principles have not been mentioned.

e) It provides for the creation of probationary societies.

f) It provides for the amalgamation of two or more societies.

g) It provides for the withdrawal of shares by members in credit unions as is the practice obtained at present in credit unions.

h) It exempts societies from paying income tax.

i) It provides for the creation of a co-operative fund.

j) Consequent to an audit it requires the Registrar to communicate defects revealed for remedial action by societies within a stipulated time.

k) It provides for the removal of an inept, inefficient or corrupt committee after due inspection and appointment in its place of a committee consisting of nominees of the Registrar to function for a maximum period of two years.

1) In the case of disputes, employees past and present and past officers are included as parties subject to arbitration.

In August 1984 the Caribbean Confederation of Credit Unions mooted the idea of the revision of Co-operative Acts obtained in its 18 member territories and appointed a task force to come up with a model Act that could be adopted by member territories with the necessary modifications. This was produced in July 1986. The main features contained in this draft act are not very different from that of the Adviser except that:

a) There is a reduction in the age limit to qualify for members.

b) Co-operative principles have been spelt out for conformity by societies.

c) The Act provides for suspension of a society by the Registrar for breaches of some of the provisions of the co-operative law.

d) It provides for the appointment of a panel of auditors, by the Registrar, from whom the societies would select their auditors.

e) In the matter of disputes it provides for the appointment of a Tribunal which shall have the jurisdiction to hear offences against a decision of the Registrar or an arbitrator.

The Government of Grenada is now in a better position in that it can compile an act with features drawn from both drafts best suited to the needs of its co-operative development.

By-laws are of much greater importance to the membership of co-operative societies than the Act and the Rules, for members refer constantly to the by-laws for their duties, rights and also in regard to the working of the society. The Department of Co-operatives prepares and "maintains" the by-laws for individual societies, and is at present engaged in the preparation of model by-laws.

Aiding Co-operatives

While support to co-operatives in the areas of audit, supervision and provision of education and training is direct, the most stable and meaningful aid provided by the Government is indirect. This aid is financial and includes fiscal privileges such as exemption from stamp duties, income tax, customs duties for importation of items necessary for the operations of co-operatives.

Budgetary provision is also made to financially assist in the establishment of co-operatives. No doubt the Government must not interfere in the affairs of co-operatives as too much regulation can devitalise the movement and undermine its autonomy, but it should certainly participate in the growth of the co-operative movement.

Offers of aid from international donor agencies to finance co-operatives are many. In some instances co-operatives have been formed to suit the objectives of the funding agencies. It is indeed an unfortunate situation that while some societies face possible extinction due to the lack of capital, others whose character and services fall far below expectations suffer from a surfeit of funding.

Aid to co-operatives is necessary and good but co-operatives must grow into self-reliant structures, and indiscreet financing can destroy their spirit of self-help which is an essential ingredient for the development of self-reliance. Funding by outside agencies is best done in consultation with the Co-operative Department and the relevant secondary society.

Assistance is most useful in the provision of technical and management assistance, education and training, and long and easy term loans - after the formation and registration of a society and after careful examination of its operations to identify the areas where a loan is required.

THE FUTURE

Various recommendations have been made for future guidance. In the present situation the Co-operative Department should pursue a policy of consolidation rather than expansion, weeding out societies with no potential, and encouraging better management by the provision of in-service training for officers. The formation of a strong apex society could represent all sectors of the movement to the Government, co-ordinate trading operations, and channel funds from credit unions to societies requiring loans. More frequent committee meetings will ensure better decision making and assist evaluation of performances.

For real economic development agricultural societies membership could be encouraged to increase from 15 to around 100 farmers engaged in the cultivation of nutmeg, cocoa, banana and vegetables. These societies will then be able to usefully assist their members by providing them with services in thrift and credit, supplies of inputs, grading, processing and particularly marketing where they, instead of every individual farmer, can provide the link with the statutory bodies. Fishery supply and marketing co-operatives should also be encouraged to become larger; industrial co-operatives only when the liability of produce can be competitive with the private sector and imports; consumer co-operatives considered for rural areas; and school co-operatives promoted.

Below is reproduced an extract from the Report of Secretary-General of the United Nations prepared for the General Assembly in January 1983 on "National Experience in Promoting the Co-operative Movement" which should not go unnoticed.

"Although the problems of development are no doubt better understood today than they were 20 years ago, there are still misconceptions about the role co-operatives can play in promoting economic and social progress. One .... the belief that co-peratives can succeed even when external circumstances are unfavourable. Another mistake is the failure to recognise that co-operation is slow in developing; perseverance and patience are needed if benefits are to be forthcoming.

The basic misconceptions, however, concern the essential nature of co-operatives. They exist to benefit their members primarily through their joint efforts. Members will be supportive of their co-operatives to the extent they derive benefits from them. Experience has demonstrated that where co-operators feel that the co-operative is not working on behalf of their interests, they are likely to lose interest in it.

Governments in some developing countries also tend to see co-operatives as one instrument among others for carrying out development policies. Such policies are not always at variance with the interests of the co-operators but neither do they necessarily coincide. Governments have, at times, used co-operatives as vehicles to apply unpopular measures. Where this is done, it is because governments tend to look upon co-operatives as instruments of development rather than as organisations of people who could and should determine their own objectives and participate in decision-making and the benefits of development. Consequently, members often look at co-operatives as another type of government institution rather than as their own organisation and, as a result, tend to lose interest".

Forty years in the life of a co-operative movement of a country is not much. The movement in Grenada has certainly not had an eventful life but at forty it is not too late to start life again keeping in mind that lessons are best learnt by mistakes.

ALLEVIATING POVERTY: CO-OPERATIVE DEVELOPMENT IN GUJARAT

by Geoffrey Griffith *

This case study is based on a period of anthropological-style field work undertaken between January 1985 and April 1986. It is centred upon three different organisational structures, a village, a non-governmental development agency and a co-operative. The conjunction of interests of the first two during 1980 led to the formation of the co-operative. Since then, their interactions have resulted in a mixture of successes, trials and tribulations for the co-operative, some of which are described below.

The discussion is developed in four stages. First, a brief description is given of the instigators, namely the village and NGO. Second, the formation of the co-operative and its first three years of progress and disappointments are described. Third, the regeneration of the co-operative as part of an anti-poverty programme is presented in greater detail and finally, some comments are made on the role of co-operatives for poverty alleviation and co-operatives in general with some suggestions for the way forward. In particular this will relate to the development of more appropriate education. As the case study will show, many trained people are involved in promoting this co-operative but none have the expertise necessary to make it work. It seems that the content of educational programmes not just in the co-operative movement but also in colleges and universities, in general have to be worked out more thoughtfully.

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INTRODUCTION

The village is in central Gujarat about two hours' drive from Ahmedabad, one kilometre from the river Sabarmati. A bus service operates to and from the nearest town five times a day.

The major source of income is agriculture. Land is irrigated either directly from the river or by tubewell and at least 75 percent of the farmers produce two crops, usually wheat and rice, annually. The relationship between landholding size and landlessness is as follows:

9 percent - ten acres or more;

39 percent - less than ten acres;

52 percent - landless.

Industrial activity within the village is largely confined to hand-loom weaving within the vanker (harijan weaver) community. Some individuals work outside the village, mainly as electricians or in government posts, and others migrate from the area, generally to work in the diamond cutting industry in Surat. The overwhelming majority of families however have agriculture as their primary, and often sole source of income.

The relationship of the main socio-religious groups to each other in terms of size is unusually-evenly balanced. There are four main groups: nomin muslim, rajput, thakor and vanker which respectively account for 13.3%, 15.5%, 14.7% and 15.9% of the households, and together about 60 percent of the population. The other 40 percent consisting of a mixture of mainly hindu families from about twenty different caste groups.

Communal politics do not have an important role in the village. Since no group through a single alliance is able to form a controlling majority, the gains to be made through political domination do not seem to be worth the considerable effort which would have to be put into achieving this. The villagers acknowledge this when talking about the 1985 panchayat elections. At this time no one was willing to stand for the post of serpench (elected village headman) and the village dignitaries had to band together to convince a member of the leading family to stand. He has since become an unwilling serpench. This, of course, is important for the new co-operative because it is unlikely that they will be subverted by those trying to gain political advantage through gaining control of it.

The NGO was established in 1971 to design and construct low cost housing for both the urban and rural poor. As a result of this work they saw a need for a considerably wider range of inputs than they were offering, so in 1979, they started to become involved in a wide range of development projects. However, it was not until 1981 that they formulated their current policy which aimed to concentrate their resources in promoting the social and economic development of the poorest ten percent of the population in a group of sixty villages. Today their main areas of activity are housing, co-operative development, health care which includes malnutrition alleviation, and animal husbandry.

It is a large agency having a paid staff of between 90 and 100. These consist of a small core of professionals having specialist university qualifications in relevant topics who are largely based in the city, and local functionaries living in the villages which are between 40 and 80 kilometres distant.

Its funding comes from a variety of sources: government funds, which are allocated as loans, subsidies etc., overseas agencies, for major projects which are selected and funded on an individual basis. It was in the early stages of their wider developmental commitment that the co-operative central to this discussion was introduced.

THE CO-OPERATIVE: EARLY DAYS

In 1980 a programme was initiated by an ex-design student employed at the NGO with the goal of introducing different income-generating activities for women in each of five villages - block printing, tie and dye, patchwork and two kinds of embroidery. The project was in three stages. First, two women were selected from each village to go for one month's training in an area where the skill was used already. Second, on their return, these women trained a further 28 women in each village for a period of three months part-time to form production units. Finally, a five-village co-operative was to be formed through which production and marketing of the entire range of goods was to be channeled.

For reasons beyond the scope of this discussion production in four of the five villages failed to take off. Attention is now focused on the one village where production continued.

In this village the skill introduced was kambira embroidery, which is a particular style of embroidery native to the Katchhch region of Gujarat. This basically involves the printing of a design on to fabric as the basis for embroidery work which is the main labour component. Goods produced by this method are kurta (women's garments), bedcovers, table cloths, cushion covers and bags.

After training production began in earnest, but after six months the co-operative failed for the following three reasons. First, it was designed to serve five villages but four of these had never gone into production. Second, it was not possible to raise money to facilitate the build-up of stock in lieu of orders. Third, there were problems in the development of the programme by the NGO which led to its withdrawal of support.

However, one village woman who had been trained as an embroidery teacher had faith in the village's capacity to produce marketable goods so, in the middle of 1981, she started production privately. It was at this time that the activity became a family business. The husband and wife between them undertook every aspect of the work excluding production, a situation which remains true to this day. They describe their tasks as follows:

> Fetching materials, colour testing, checking stitching, designing, design tracing, sorting work for women, colour combining, thread distribution, quality control, book-keeping, accounting, ironing, stock control, correspondence, meeting clients, marketing, banking, distribution of labour, packing and carrying, having meetings with women, attending NGO meetings.

Their main sources of income were labour work for the government handicraft emporium and some exhibition work but from these they were not able to secure a regular income.

THE CO-OPERATIVE: REGENERATION

It was through one of the exhibitions that contact with the NGO was re-established in 1983. The family were having problems finding markets for their goods, so were unable to raise sufficient money to building up stock to a level where they were able to respond to the demands of an irregular market. At the same time the NGO was looking for opportunities to extend their poverty alleviation programme within the village. It was decided that, to facilitate both the aspirations of the NGO and the embroiderers, who wanted to supplement their family incomes, a new co-operative should be formed and further training undertaken. In the previous training programme emphasis was on promoting production; this time it was to be the involvement of the weaker members of the community.

The circumstances had now changed. New inputs overcame former problems; the new NGO manager was a graduate of a leading management school; at the village level both husband and wife were salaried by the NGO to work full time as the co-operative organisers; working capital was made available from NGO funds; and finally, there were local level co-operative management training schemes organised by both the district and state co-operative unions. The wife in the village management team participated in two such schemes so as to learn more about the mechanics of and the skills required for the co-operative to operate efficiently.

There were also the negative issues. First, the co-operative had already failed once so confidence was lacking in the villagers who would benefit most from the extra incomes. Second, it had become a family business where the motivations for participation differed from those of the usual co-operative. Bearing these in mind, developments in the co-operative since 1983 can be viewed from the two standpoints of a poverty alleviation programme and as a village co-operative development in its own right.

The success of the anti-poverty aspect depended upon factors such as regularity of income derived from a high production rate (most poor women in the village came from the lower caste groups and worked part of the year as agricultural laborers, an income they were not likely to jeopardise on the off chance that a more regular income might be attainable elsewhere), and overcoming their caution to commit themselves to a project with a failure rating by means of training.

The training was funded by the Khadi and Village Industries Commission. It took place over a three month period and consisted of learning the fifteen different embroidery stitches that are peculiar to Kambira embroidery and the colour combinations. It was not necessary to be literate to complete the training as could be shown by the success of the previous programme when all women participating completed the course. However the donors could only sponsor thirty out of the seventy who applied and requested that the numbers be reduced. Selection was made easy by a written examination which had the effect of immediately excluding the poorest women in the village, leaving a mixture of caste hindus and muslims who were generally from the middle income group families. This group, of course, would not be dependent upon any additional income source and therefore was not unduly worried about regularity of employment etc.

So, when production re-started after another successful training programme the group consisted of 75 women. They were neither all co-operative members nor graduates from the two training courses although most were either one or the other. The additional women were there as a result of a certain amount of informal training on the job by friends and relatives. Only 17.5 percent of those now working came from amongst the landless. Most were from land-owning families of either high caste hindu or muslim origin which had an above average number of females over the age of fifteen living in the household. Observation has shown that, for a family to earn a reasonable sum from this activity, a surplus of females over this age is a prerequisite, since this reduces the per capita workload at the household level. But many poor families have this constitution as well.

To understand the dilemmas the co-operative has faced to date it is necessary to investigate their economic position. It is important not just to know how much they have been producing but also how much they can produce. This basic data will throw light upon the limitations brought about by their mode of operation and give some indication as to their capacity to change or develop.

The maximum turnover for the co-operative can be estimated, assuming that the goods are produced as quickly as possible and that every worker participates for the same time each month.

<u>Sample Labour Rates</u>

Product	Bed cover	Cusion cover
Labour time:	30 - 35 hours	5 - 6 hours
Piece rate:	Rs. 40	Rs. 4
Hourly rate:	Rs. 1 - 1.3	Rs. 0.6 - 0.8

The value of production relates directly to the piece rate paid for each item because it fluctuates considerably. As can be seen, a woman producing a bed cover can earn 40 rupees for approximately 30 - 35 hours work. That same woman, if producing a cushion cover, will earn 4 rupees for about 5 - 6 hours work. In the first case the labour rate is between 1.1 and 1.3 rupees an hour; in the second it is between 0.6 and 0.8 rupees an hour.

Worker time is assumed here to be 3½ hours a day for 28 days a month. Certain women confined to the home can work more, others are likely to stop work for several months a year to labour in the fields. If there is a labour shortage occasional workers will help out so it is generally possible to maintain production at the above rate for 75 women throughout the year.

In total, with a full work force working on the most profitable goods, a turnover something in the region of 36,000 rupees per month can be expected. But, for reasons presented below, production has never come near to achieving this. In a good month it has been worth about 8,000 rupees while in a bad month it has fallen as low as 2,300 rupees. In other words they have never worked at even 25 percent of capacity.

Such a low turnover where little cash is available reduces any capacity to develop the co-operative.

The extent of this problem depends upon their costing strategy. In pricing goods the amount is arrived at by assessing the contribution to the total of each of the following items: cloth, thread, embroidery, printing, tailoring, washing, packaging, transportation and profit. The exact sum of each varies in accordance with the products which require differing quantities of each component depending primarily on the complexity of the design and the varying manufacturing processes. The three major components are cloth, embroidery and profit, the differing values of each are demonstrated by the following two examples of a double bed cover and a kurta.

Kurta: Cost - Rs.100; Cloth - 54%; Embroidery - 10%; Profit: 16%

Bed cover: Cost - Rs.160; Cloth - 36%; Embroidery - 25% Profit: 16%

Their use of the word profit is interesting because this is exactly as they see it. At no stage do they make allowances for 'overheads'.

This 'profit' component could be as high as 6,400 rupees a month but, on the basis for the actual figures for production presented earlier, is between 414 and 1,440 rupees a month. It is doubtful that this will be adequate to meet the costs which are primarily management, sample production, wastage, storage and marketing.

Management costs at present have two components assuming that the NGO does not charge for its services. These are the salaries of the husband and wife management team, 400 rupees per person, and their travelling costs in pursuit of co-operative business which comes to an additional 80 rupees a month. As mentioned earlier, this cost is at present being met by the NGO.

Sample and wastage charges are quite high. Many new designs are produced to test the market and, although the quality of the work is high, there are sometimes problems with colours running or faults in the material. Together samples and waste must cost a minimum of between 500 and 800 rupees a month.

Storage costs are low because they produce very little unless they have an order. They will rarely have more than 3,000 rupees worth of stock so, allowing for 1 percent monthly devaluation this will only cost 30 rupees a month. Perhaps this is one advantage of having cash flow problems. While they might have no money for producing on an ad hoc basis it means that they cannot further add to their costs by over-producing.

Cash flow is a considerable problem. Apart from having to buy the material some time before the finished goods are sold, there is also the necessity to pay the women within a reasonable time of the work being completed. This, for the village management, together with the setting up of a reserve fund is the main priority. So far, they have managed to put 5,000 rupees in reserve which is equal to about 200 rupees a month. On the sort of turnover they have this seems impossible. What in fact happens is that some of the tasks included in the costing are undertaken free of charge by the village managers' family, so enhancing the profit component.

In total, excluding both the reserve fund contributions and marketing, but including the expenses which are at present paid by the NGO, overheads amount to 1,400 rupees monthly at the bare minimum. As the figures for production show, they have hardly ever covered this cost but, with sufficient turnover, it is conceivable that the co-operative could run at a reasonable profit. That is to say profit in the true sense of the word where it represents surplus after all the costs have been considered rather than the visible cost of each item.

Marketing is the major bottleneck. Unless they have somewhere to sell they cannot produce. However, marketing requires considerable investment, both in time and money. Further, it needs the right approach if reasonable results are to be achieved.

The products come from the village and are designed to sell in the large cities where these kinds of goods are much in demand. The village women are largely protected from the outside world, living in a society where the opportunities to develop the kind of skills necessary for marketing are virtually non-existent. Only the family running the co-operative could develop this capability through the additional training they were given, but even they were unable to tackle the problem.

The husband and his wife in the management of the co-operative have made three marketing trips to Bombay. On the first two trips they visited several shops including the Central Cottage Industries Commission showroom where they were told that all purchasing was handled through the Delhi office. On the last occasion they went in response to a letter seemingly asking them to produce 400 kurta but came back with just two sample patterns to copy. The difficulty lies in the fact that they know where the market is but not how to penetrate it.

The city-based NGO's efforts in this area have met with a mixed response. One idea - for combining handloom and embroidery production to manufacture bed covers - failed and not one was sold. The looms available could not weave a piece of cloth wide enough for this so it was decided that the two halves should be woven separately and then, after embroidery, joined in the middle. The result was a bed cover consisting of two pieces loosely joined in the middle with no pattern alignment on either side of the join. This attempted innovation on behalf of the NGO undertaken at no cost to the co-operative had a detrimental effect on their relationship as it reduced the co-operative's confidence in the marketing ability of the NGO.

However, as well as marketing skills, money has to be available. For goods such as these something like 30 to 40 percent of the total cost would have to be devoted to promotional and marketing activities. This would mean, on a suggested maximum turnover of 36,000 rupees, an amount somewhere in the region of 10,800 to 14,400 rupees, so extra capital would have to be generated to enable this. More realistic costing could certainly achieve this, particularly if the current market price were taken into consideration.

The villagers under-price their goods and the wholesalers, retailers and consumers expect village products to be cheap even when the quality is high. When the marketing is taken out of the hands of the villagers, prices increase quite dramatically. The Central Cottage Industries Commission marks up by 100 percent. A fashion shop which for a short time marketed village-made kurta also increased prices by a similar amount. So there must be scope for the villagers to increase their prices if the outlets are found. Further, judging by the sort of mark-ups the retailers are making, it is unlikely that the 20 percent to 25 percent rise in prices that would be necessary to generate the funds the co-operative needs to develop a more appropriate marketing strategy would adversely affect their marketing potential. The co-operative needs to have sufficient knowledge of costing and marketing to enable them to implement a suitable pricing strategy, and also to draw up a budget. It is believed that appropriate training could overcome these problems.

SUMMARY AND IMPLICATIONS

So far there is a village which is in need of work where there appears to be no political opposition to the co-operative. There is a family which has successfully trained and maintained a production unit, whether as private business or co-operative, for a number of years. There is an NGO which has been trying to use co-operative development as a tool for fighting poverty but in this case has not succeeded in reaching its target group. There are inadequacies in both costing and marketing which severely hinder the development of the co-operative in its present form.

Where does this leave the poor? Also where does it leave the co-operative? The answer for the poor, of course, is nowhere. They will not and, unless production becomes regularised, cannot participate: they need a regular income and this is not available through embroidery. Furthermore, because the co-operative has not yet operated on a sound basis there is no opportunity to assess whether or not they could participate under improved circumstances. In fact, even if regular production did take place it is unlikely that, at this late stage, they would feel the risk of participation to be worth while.

Having failed to reach the poor what is the future of the co-operative as part of the NGO programme? It still receives help from the NGO. They continued to pay the wages and expenses of the village management, occasionally finance attempts to develop new products, give bridging loans to cover the costs of raw materials when the likelihood of sales is high and also provide a valuable source of information for the co-operative, particularly in relation to government training and promotional schemes. In consequence of this the NGO expects to have some control over the management, not as a means of promoting development, but to ensure that no corrupt practices are introduced. However, the connection between co-operative and NGO, which under present circumstances is all that maintains economic viability for the co-operative, looks as though it will continue but as a means of preventing collapse rather than to develop potential.

The co-operative cannot increase production because, without marketing skills, it is not able to secure orders. The poor will not participate because there is little chance of them securing a regular income.

ROLE OF MARKETING CO-OPERATIVES IN RURAL DEVELOPMENT: AN INDIAN SCENE

by B.B. Goel *

There is growing evidence that members of the rural poor have been increasing in most of the developing countries (1). While a host of measures, specifically designed to help their lot, have been initiated, the relentless process that produces poverty appears to have been continued unabated (2). An I.L.O. document clearly demonstrates that poverty is not going away. On an average, 40 percent of rural people live below the poverty line; that is, they earn an income less than sufficient to supply their basic needs of food, health, water, housing and education. Behind these stark facts, there is a mass of people condemned to hunger, malnutrition and ignorance (3). The eradication of poverty cannot be brought about by a single solution: it requires a complex series of interlocking policies.

In order to improve the lot of the rural poor, our planners and policy-makers launched seven five year plans. These plans are the blue prints of our national effort for an overall development of the country. The first plan accorded priority to raising the national income and ensuring a steady improvement in the living standards. The second plan aimed at achieving a socialistic pattern of society. Self-sustained growth was the major objective of the third plan. In the fourth plan, the concept of equality and social justice was to be promoted. Self-reliance was to be attained in the fifth plan. The removal of poverty was recognised as the top priority in the sixth plan. The latest plan gives its concerted attention to food, work and productivity.

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During the planned period, about 33 different programmes have been undertaken, a chronological account of which is given in Table 1. In the fifties, the community development programme and national extension services took the lead. The programmes were not successful because of their haphazard location (4). Their failure led to the setting up of the Panchayati Raj Institutions to ensure popular participation in the planning and implementation of various rural development programmes.

During the sixties, various package programmes were instituted to improve productivity. These too did not achieve the desired objectives, owing to the problems of inter- and intra-regional inequalities of income and because they succeeded in helping mainly the already large and progressive farmers.

During the seventies, the approach shifted to target groups among the weaker section. But again haphazard and isolated sectoral programmes failed to solve the problems of poverty, unemployment and under-employment in rural areas. The actual benefits from these programmes percolated to hardly ten percent of the target group.

A new strategy of Integrated Rural Development (IRDP) was introduced in 1976. The IRDP approach is not a package deal, but a combination of the relevant activities suited to the local situation and priorities (5). "It stands for the development of the rural society in all its facets - social, economic, institutional, and administrative ..... for 'integrated, performance and accomplishment of all the objectives stipulated'" (6). This programme has the motto of minimum state interference, mass participation, self-reliance, pooling of resources and service to the people (7). Today, almost all the state government departments (Agriculture, Animal Husbandry, Co-operation, Social Welfare etc.) are making all-out efforts for the success of rural development.

Table 1

Rural Development Programme - A Chronological Account

		Year
1.	Community Development Programme	1952
2.	National Extension Scheme	1953
3.	Khadi and Village Industries Scheme	1957
4.	Multipurpose Tribal Development Block	1959
5.	Package Programme	1960
6.	Intensive Agricultural District Development Programme	1960
7.	Applied Nutrition Programme	1962
8.	Intensive Agricultural Area Development Programme	1964
9.	High Yielding Variety Programme	1966
10.	Farmer's Training Education	1966
11.	Well Construction Programme	1966
12.	Rural Work Programme	1967
13.	Tribal Development Block	1968
14.	Rural Manpower Programme	1969
15.	Composite Programme for Women and Pre-school going Children	1969
16.	Drought Prone Area Programme	1970
17.	Crash Programme for Rural Employment	1971
18.	Small Farmers' Development Agency	1971
19.	Tribal Area Development Programme	1972
20.	Pilot Project Tribal Development	1972
21.	Pilot Intensive Rural Employment Programme	1972
22.	Minimum Needs Programme	1972
23.	Command Area Development Programme	1974
24.	Hill Area Development Programme	1975
25.	Special Livestock Production Programme	1975
26.	Food for Work Programme	1977
27.	Desert Development Programme	1977
28.	Whole Village Development Programme	1979
29.	Training Rural Youth for Self-employment	1979
30.	Integrated Rural Development Programme	1979
31.	National Rural Employment Programme	1980
32.	Rural Landless Employment Guarantee Scheme	1981
33.	Development of Women and Children in Rural Areas	1983

It is however from 1980 onwards that, unlike the previous years, where multi-agency approach was adopted for the success of rural development, a single agency approach is envisaged. This has led to the merger of a host of existing agencies into one single agency at the district level, known as the District Rural Development Agency (DRDA).

Rural Development and Institutional Network

There is no gainsaying that the sucess or failure of any rural development programme largely depends upon the active participation of the rural poor, both in policy-making and in decision-making. "Rural development strategies can realise their full potential only through the motivation, active involvement and organisation at the grass-roots level of rural people in conceptualising and designing policies and programmes" (8).

In spite of the imperative need for participation, little progress has been made in this direction in the Third World. "Authentic popular participation seldom occurs" (9).

The institutional network for the grass-roots association of rural people comprises:

a) an administrative channel i.e. village patwari * and village-level worker;

b) voluntary agencies;

c) participatory organisations which include both panchayats ** and co-operatives.

Of these it is the co-operatives - the people's decentralised and participative institutions - which have played a key role in accelerating the rate of rural development.

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* "accountant"
** village council

They have been organised at all levels in diverse areas such as credit, marketing, distribution, dairy, industry, sugar, handlooms, labour, housing, poultry, fishery etc. Some have lent a big hand in the success of the Green Revolution, the White Revolution, the Sugar Revolution, consumer protection and a chain of agro-based processing units like sugar complexes, fertilizer plants etc. (10).

The present paper makes an attempt to highlight the role of marketing co-operatives in rural development in India.

Marketing co-operatives constitute the nucleus around which most of the other co-operatives revolve. They provide not only an alternative to the traditional market mechanism but also the facilities for producers to market their produce to best advantage, and on business principles. They also integrate the basic structure of co-operative credit and provide an in-built mechanism for the recovery of loans. Success or failure of consumer co-operatives depends upon their vertical and horizontal collaboration with marketing co-operatives for the network of co-operative processing built up as an adjunct to marketing co-operatives ensures economic benefits both to growers and consumers. The progress of comprehensive rural development is possible only if there are close links between marketing co-operatives and other infra-structures available.

Co-operative marketing has the following four-tier administrative hierarchy:

		Nos.
National Agricultural Co-operative Marketing Federation (NAFED)	national level	1
Apex federations	state level	29
District/regional societies	district/regional level	171
Primary marketing societies	primary level	3,632

Contribution of Co-operatives to Agricultural Development

Quantitatively, co-operatives in India have emerged as the largest in the world. There are 2.88 lakh * co-operatives having 11.5 crore ** members. These have disbursed Rs.2,900 crore of agricultural credit during 1983 -1984 as compared to merely Rs.214 crore in 1960-1961 and account for more than 40 percent of credit requirements. The value of agricultural produce marketed has witnessed an increase from Rs.169 crore to over Rs.2,400 crore. There are 2,352 organised co-operative agricultural processing units out of which 1,929 have been installed. Co-operatives have handled 44 percent of the total fertilizer consumption and account for 55 percent of the sugarcane marketed/processed in the country. These have also marketed about 25 percent of cotton production, 28 percent of wheat procurement and 24 percent of paddy in the country.

There are 18 national-level apex bodies in the sectoral fields. The setting up of NABARD in 1982 for agriculture and rural development has made a new landmark in co-operative structure.

The above figures reveal quite a rosy picture of co-operatives expansion. This is however, only one side of the picture. Let us also look into the various fundamental issues with which these organisations are currently confronted so that during the seventh plan period, schemes are so evolved as to contribute to the development of the rural poor.

Business Turn-over

The success of an organisation largely depends on its base

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* lakh = 100,000
** crore= 100 lakhs
(10 million)

which has to be very strong, sturdy, effective and efficient. The case of the marketing co-operatives is however the reverse. The sixth plan document observed that in spite of vigorous efforts of government, the primary societies on which the co-operative edifice stands are still weak, dormant and non-viable (11). The latest national survey on primary co-operative marketing societies conducted by NAFED reveals that about one third of primary societies were not doing any business in marketing; 14 percent were doing less than Rs.1 lakh business, another 14 percent did business of Rs.1 to 5 lakhs; 9 percent of the societies did business of Rs.5 to 10 lakhs; 10 percent of societies did business of Rs.10 to 20 lakhs, and only 15 percent above Rs.30 lakhs (12).

In the Northern Zone which is considered to be the wheat and rice bowl of India, the position is not heartening as is clear from Table 2.

Table 2

Level of business undertaken by Primary Societies

State	Total No. of Socs.	Socs. not doing any business	Less than Rs.5 lakhs	Rs.5 to Rs.10 lakhs	Rs.10 & above lakhs
Haryana	75	1	5	1	68
H.P.	40	22	11	4	3
J & K	82	55	10	9	8
Punjab	129	17	27	22	63
U.P.	264	31	76	55	102

The data reveals that 67 percent and 55 percent of societies in J & K and H.P. respectively are not doing any business in marketing agricultural produce; (a marketing society to be viable needs to ensure a minimum turnover of about Rs.50 lakhs per annum).

It is, therefore, suggested that during the seventh plan, dormant and weak societies should be liquidated and societies merged in those cases where there is some potential for revitalisation.

Uneven Growth

Co-operatives have developed unevenly which has led to regional imbalances and friction among the member-states. Though 45 percent of rural families are within the co-operative fold, the weakest sections of society are still not adequately represented in the membership roll. Similarly, as in other sectors, the inter-state disparity is wide in the case of co-operative marketing. Six states account for nearly 81 percent of the total marketing and more than 60 percent of the total value of agricultural produce marketed by co-operatives is accounted for by sugar and cotton. These geographical imbalances and inter-commodity disparities during the seventh plan need to be evened out with the assistance of central government which would foster national integration.

Financial Dependence

Co-operatives must be financially independent. The Indian Government however favours the idea of state partnership based on the belief that the state's assistance would not be required in the years ahead with the steady growth of co-operatives.

Over the years, co-operatives have shown a tendency to over-depend on the state. It is now generally held that co-operatives are a way of getting easy finance from the Government. The words "grants, loans, subsidy" have changed intermittently with "self help, mutual help, joint action". This fact is confirmed if one looks at the states

Government's contribution to the share capital of apex federations. Table 3 applies to the northern zone.

Table 3

The State's Contribution in Share Capital of Apex Federations
(Rs. in lakhs)

State	State's share	Total share capital	% of Government share
Haryana	944	1,067	94
H.P.	161	163	99
J & K	50	52	97
Punjab	1,074	1,134	95
U.P.	500	522	96

The above picture holds good in respect of other apex federations in the country except in Gujarat, where it is as low as 43 percent.

Since share capital does not fall under the management of co-operatives, this is one of the possible reasons that co-operatives are not rendering goods and services as expected from them. It is therefore suggested that in the seventh plan, schemes should be evolved which can help strengthen the financial structure of co-operatives and lessen their dependence on the state's benevolence. For this, it should be incumbent upon all the societies in the state to become members of the apex federation and contribute towards its share capital. The personnel working in co-operatives should also be inculcated in the habit of thrift by purchasing shares and - thereby becoming equal partners in the success or failure of the organisations.

Losses in Co-operatives

Though co-operatives are expected to function like a commercial organisation, they cannot maximise profits nor can they afford to incur losses. In other words, profit is not the yardstick for measuring efficiency and achievement but the profit motive is not foreign to them. By earning a surplus the co-operative can both have its cake and eat it. The aim of co-operatives therefore should be to render services or produce specific products at a particular time, cost, and price which will not only ensure marginal profit, but also the benefit and goodwill of the members, clients, and public in general.

On examining the profit/loss accounts of apex federations in general and that of the northern zone in particular, one finds that the apex federations have incurred huge accumulated losses over the years as is clear from Table 4.

Table 4

Accumulated Losses of Apex Federations
(Rs. in lakhs)

State	1980-81	1981-82	1982-83
Haryana	-	-	264
H.P.	12	3	-
J & K	-	-	-
Punjab	1,726	2,722	Not available
U.P.	-	-	Not available

Markfed, claiming to Asia's biggest co-operative, has incurred losses of Rs. 2,722 lakhs, an amount that has exceeded its total owned funds of Rs. 2,475 lakhs. In such an alarming situation, member-societies admitted that they did not hope to get even their original share money back from the federation.

In order to improve the financial management of the apex federation, the Government may come forward with policies in the seventh plan to ensure strict adherence to the principle of quality service, high cost consciousness, aggressiveness in business promotion, market orientation, high operational autonomy, self-managed target budgeting, and commercial profitability to earn some surplus to plough back.

Competition from Public Sector Agencies

Of late, the Government has set up a large number of public sector agencies like FCI, CCI, JCI, Agro Industries Corporation, Civil Supplies Corporation etc., under the multi-agency approach. These organisations are expected to play a supplementary and complementary role to co-operatives. But in practice, it has been observed that these organisations have stood in the way of the healthy growth of marketing co-operatives. The latest role of FCI in the states of Punjab and Haryana with regard to procurement of paddy is an example. Means of fostering greater business harmony and co-ordination between the two agencies is essential.

Politicisation of the Movement

Marketing co-operatives like other co-operatives are not free from the clutches of state/officials. The state, in the garb of "partner", unilaterally decides the future plans of action of these organisations. There is therefore no possibility for them to become self-sufficient, self-dependent, and self-regulatory. Moreover, the principles of democratic control and political neutrality are being ignored and co-operatives are being considered as the centre of politics. The sugar and cotton growers' lobby in the states of Maharashtra and Gujarat is one of the striking examples. In fact, the fate of co-operatives much depends upon the changes in the political set-up of the country. For instance, with the changes both at the centre and in the states in 1977 and 1980, there was an era of suppression of elected boards right from the primaries to apex federations in most of the states. Even today, marketing co-operatives in almost all the states of the northern zone have been denied the freedom to function in an environment conducive to democratic management. Such a step has shaken the faith of people in co-operatives as an instrument of securing economic and social justice.

It is hoped that our energetic Prime Minister who is very much concerned with the democratic functioning of the institutions would give a special thought during the seventh plan period to co-operatives so that they can be saved from further politicisation and degeneration.

Outmoded Business Techniques

It has been observed that marketing co-operatives confine their business operations to an agency basis. They only get a nominal percentage of commission which is not sufficient for their economic viability. In fact, co-operatives generally avoid marketing agricultural produce to accord with changing market conditions. Various committees have stressed the need to market produce directly or on a joint venture basis: to be effective in the market, co-operatives have to assume that role of main traders in the market by undertaking outright purchase and the sale of agricultural produce.

The position of marketing on an agency and direct basis in the northern zone is not encouraging as is clear from Table 5.

Table 5

Marketing of produce by Apex Federation (1982-83)
(Rs. in lakhs)

State	Agency basis	Direct basis	Total
Haryana	6,974	1,468	8,442
H.P.	-	220	220
J & K	-	915	915
Punjab	17,279	1,450	18,729
U.P.	break-down not available		9,643

The data shows that a share of direct business in the states of Punjab and Haryana has been quite negligible i.e. 8 percent and 17 percent respectively. It also indicates that apex federations are dependent on state patronage when dealing with wheat, cotton, paddy etc. So that if the state Government decided to take away procurement work from the apex federations, these would be doomed.

It is therefore suggested that in the seventh plan, the Government should provide a scheme in which it would be incumbent upon the apex federations to market a fixed percentage of agricultural produce on a direct/joint venture basis. At the same time, a price fluctuation fund on a permanent basis could also be set up to impart stability to agricultural markets.

In addition to some of the issues raised above, there are many more other areas which deserve the attention of our political executives and administrators. These issues can be examined in an intensive manner if need-based research studies on various facets of marketing co-operatives are conducted and their follow-up ensured.

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THE ROLE OF EFFICIENT TRANSPORT IN DEVELOPMENT

by E.S. Mfangavo *

An efficient transport system plays a vital role in the development of an economy like Tanzania. This paper reviews the whole question and, by drawing on examples from Tanzania, discusses how this can be attained without necessarily investing much in new vehicles. It concentrates on road transport since railways and water are not widely used in Tanzania.

Characteristics of an Efficient System

The efficiency of a transport system can be measured by many variables. For this article, it is defined as having the following characteristics:

- Availability. Transport should be available when it is required.

- Reliability. Even if fleets are large or consist of new lorries, unless they reach the destination as scheduled, they are of little use.

- Speed. This is essential for transporting perishable crops to avoid spoiling them and to avert the consequent loss in revenue.

- Flexibility. Vehicles should be able to transport different types of produce (e.g. crops and livestock), as well as people, in rural areas. The size of vehicles should also vary to ensure large trucks are not under-utilised transporting small loads.

- Safety. There have been cases in Tanzania when loads do not reach their destination: either the load is robbed on the way or the driver disappears with the load and the lorry.

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Advantages

The principal advantages of an efficient transport system are fourfold:

1. It opens the possibilities of marketing, by linking areas of production with areas of consumption.

2. It encourages specialisation. A chagga in Kilimanjaro will concentrate on banana production because he is sure of getting maize in Singida and vice versa. When transport is reliable, farmers are able to concentrate on producing crops for which they have the best advantage, and thereby increase output through specialisation.

3. If supplies can be made readily available, efficient transport reduces the need (and the associated costs) of holding large stocks. Similarly, supply and the price of produce can be stablilised if goods can be moved quickly from surplus to deficit areas.

4. If large loads are transported at one time, efficient transport can also reduce marketing costs. (Note that transport costs tend to form a high percentage of total marketing costs).

Constraints

However, efficient transport is not always attainable, especially in the environment of Tanzania. Transport arrangements are not made on time: a lack of records, limited vehicles, as well as poor communication (between primary societies and the union, for instance) make it difficult for vehicles to be available at the right time and in the number required. Farmers become discouraged, particularly when they do not have adequate storage facilities, and they may resort to black market selling through unofficial channels. Delays in the collection process damage produce (e.g. if it has to be left in the open due to shortage of storage facilities, it may be spoiled by rodents, rains and wind) and reduce its quality.

The union or society often hires private transporters to collect produce from farmers, particularly during the peak season. Rates are fixed by Government so these transporters tend to neglect distant collection points/societies and concentrate on those to which the roads are of reasonable quality. The system of payment to transporters also contributes to delays and loss of produce. They are often not paid on time or they receive crossed cheques which take time to clear. They therefore prefer not to hire out their vehicles for produce collection, and the whole burden for transport remains with co-operative vehicles which are generally not sufficient for this task.

Inadequate maintenance results in frequent breakdown of vehicles. Lack of spare parts is one reason. Another is that the time it takes for vehicles to be repaired in a garage encourages transporters to conduct curative maintenance (i.e. once they have broken down) rather than preventive maintenance (periodic checks) or predictive maintenance (acting once a fault is suspected). The latter two are considered a luxury but they could save both time and money if practised.

Loading and unloading times are often excessive and contribute to delays through lack of punctuality, low work levels and poor handling equipment. Inefficiency in transport is also explained by poor transport records: if past records are not kept, information is not available for management to make revisions and adjustments in policy. Consequently, most decisions are based on intuition.

Recommendations

The recommendations given here are those which can be met by co-operative unions or primary societies, and can therefore be realised immediately.

1. Make better use of existing transport by obtaining return loads and thereby reducing transport costs considerably.

2. Use larger transport units in order to attain economies of scale.

3. Ensure proper packing of lorries without overloading. This would also include processing and grading facilities.

4. Exercise planned maintenance of vehicles. Periodic checking of vehicles (e.g. once a week or month depending on volume of business), and roads, would be recommended.

5. Reduce loading and unloading times by either using equipment such as pallets, fork-lifts etc., (not necessarily very expensive) or, depending on the type of produce, have lorries that can be unloaded mechanically by use of hydraulic pressure.

6. Examine the possibilities for inter-regional exchange of vehicles where regions have alternative peak seasons. It could also be possible for the Co-operative Union of Tanzania (CUT) to serve as a clearing house for unions' vehicles that are out of order: one union or society could purchase a written-off lorry from another union to use for spare parts. This exercise could be cost-effective and encourage local creativity.

7. Control staff, particularly drivers. Suggestions range from an incentives system making drivers accountable in case of loss or damage, to leaving keys with two responsible people at either end of a journey for locking and opening the lorry (excluding the driver). Alternatively, the driver could be accompanied by two committee men - but this assumes that three people cannot collude. A combination of these suggestions could help alleviate the problem of dishonest drivers.

8. Ensure timely collection of produce through gathering information on produce (quantity and harvest time) and vehicle availability.

Conclusion

For any economy, transport plays a central role in development. Efficient transport in Tanzania is required for co-operatives to make an effective contribution to development. There is a lot of room for improvement within the existing capacity, and efforts should be made to correct this before considering the acquisition of new vehicles.

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NOTES FOR CONTRIBUTORS

TO THE

YEAR BOOK OF AGRICULTURAL CO-OPERATION

The Year Book of Agricultural Co-operation has been published by the Plunkett Foundation for Co-operative Studies since 1927 and jointly with the International Co-operative Alliance since 1976. 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; they should not exceed 5,000 words (i.e. about 16 Year Book pages) and cannot be accepted later than August 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.