

**SPEECHES
ON
COOPERATION
20**

**Thrift and
Credit
Cooperatives
in
A Changing
World**

Speeches by

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60

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Thrift and Credit Cooperatives in A Changing World

I feel deeply privileged to have this opportunity of speaking to the 5th International Conference on Cooperative Thrift and Credit. It is nearly fifteen years since the first International Conference was held in Kingston, Jamaica, in 1966. Since then we have come a long way: we have met in Paris in 1970, in London in 1974 and in Rio de Janeiro in 1977. And now we are in New Delhi, in a country where the movement started with thrift and credit in 1904 and continues to remain the dominant form despite the considerable diversification of the movement which has taken place. These four-yearly conferences of leaders of the world thrift and

credit movement have been more than social events: they have bred a sense of solidarity among practitioners of thrift and credit; contacts have been established and have often led to sustained relationships between organisations. This has no doubt created a feeling among many—and I count myself among these—that if the institutions involved and their leaders could pool their resources and energies together, we could genuinely move towards establishing what the founders of the cooperative movement saw as an alternative social and economic system and in creating a world community which would be altogether more enlightened than the present one. I must here pay a warm tribute, to the International Liaison Committee which, under the dynamic leadership of M. Braun and with the support of Madame Robert has been doing important work on extremely meagre resources. This Liaison Committee, about which more later, was formed on the occasion of the Paris Conference; its constitution was ratified in 1974 in London, and with a characteristically low profile, the Committee has been doing important work and has been the prime mover in bringing the leaders of this sector together.

This time, Mr. President, we have the broad theme of "Thrift and Credit Cooperatives in a Changing World." We shall be concerning ourselves with four major topics, viz, the social and economic environment in which thrift and credit cooperatives have to operate; their role in helping the underprivileged; the International Inter-Lending Programme, and, finally, the role of thrift and

credit cooperatives as banking institutions. I hope that we shall all be able to learn from the experience of each other and that we shall see a significant expansion of thrift and credit cooperatives in the eighties in spite of the many problems with which the world is faced.

As we enter the eighties, I must recall the 27th Congress of the International Cooperative Alliance held in Moscow last October. The main paper for this Congress had been prepared by the late Dr. Laidlaw, and was about prospects for "Cooperatives in the Year 2000." I should like to pay tribute to Dr. Laidlaw's dedication and to the imaginative way in which he tackled his task. He warned the Congress of the many formidable economic and other problems likely to be facing the world in the year 2000, some of which have already begun to make their appearance. At the same time he expressed the hope that there would be a significant expansion of many kinds of cooperatives during the next twenty years and increasing collaboration between them. He argued that cooperative development is highly relevant to many of the problems which we encounter today.

Cooperative principles, Mr. President, can be applied to a wide variety of human activities and can, according to many, provide the world with an alternative to conventional capitalism on the one hand and state socialism on the other. Thrift and credit cooperatives and credit unions are, perhaps, the most basic of all kinds of cooperatives, for they help people to accumulate savings out of small

earnings. These savings are needed for the development of other kinds of cooperatives, especially, perhaps, in developing countries, of agricultural food production cooperatives.

Food is basic to human survival. Millions of people in developing countries do not get enough to eat. It is estimated that the world population will have increased by 25% by the year 1990 and by 50% by the year 2000. Increased food production seems only too likely to fall short of human need. In most countries agricultural cooperatives and credit cooperatives are the most important kind of cooperatives and they often work very closely together. Agricultural marketing and supply cooperatives can and do exercise a major influence both on the prices paid to the farmer and those paid by the consumer —and help in reducing distribution costs. They are often closely linked with agricultural policy-making and with land conservation and with thrift and credit cooperatives.

Credit Cooperatives

In France strong agricultural cooperatives are closely associated with Credit Agricole, one of the biggest banks in the world. In the Federal Republic of Germany, the Raiffeisen network of cooperatives is extensive and effective and is concerned with credit as well as with supply and processing. In Japan the agricultural cooperatives are at the same time credit cooperatives, and also concern themselves with retailing, insurance, and even health care, and have their own bank, the Norinchukin Bank. The

whole country is covered by an extensive network of multi-purpose cooperatives without which the farmers would be deprived of an extremely important institutional support in the fields of credit, marketing, processing, supply and farm guidance. The scope of their activities now extends beyond the local and national to international markets. The Purchasing and Marketing Organisation, Zen-Noh, had a turnover last year of 23 billion dollars, and is currently building a facility in the US. The Bank is seriously considering establishing its offices in Europe. The Cooperative Movement has come of age: it is international not only in its ideology; it is playing an increasingly active part in commerce across national frontiers.

In a number of countries and in Japan, thrift and credit societies have diversified their activities and responded to the needs of their members and in the process assumed a more complex organisational form. The needs of the members are seen as a continuum, rather than as a series of isolated wants. This development which is perhaps more characteristic of the Third World is caused partly by the relative absence of normal commercial banks who have historically ignored the rural areas, and partly because of the attempt to build around the member a protective casing which prevents entry to the exploitative private money-lender-cum-trader. Experience has shown that the pressures on the member for unproductive expenditure are so persistent that there is a real danger, in the absence of supervisory measures, of the loan becoming delinquent, thus causing serious harm to the organisation

as well as to the individual borrower. The representatives of COLAC, Mr. President, will no doubt tell us of their experiences of what is called the Directed Agricultural Production Credit Scheme with its commitment on four aspects : training, and service, an aspect which was briefly mentioned at the Paris Conference. India of course has a considerable body of experience in what is called the Supervised Agricultural Credit and I am aware that since the probing research of the All India Rural Credit Survey in 1952, considerable thought has been expended on the subject.

Education and Management Training

As the number of functions of the cooperative thrift and credit society have increased, they have begun to experience problems which are complex and beyond the ken of well-meaning amateur managers. Efficient management, always a scarce resource in developing countries, has been revealed as a major constraint on growth. Efficiency and democracy, the two imperatives of our Movement, are not altogether easy partners: the London Conference devoted itself to the theme of "Democracy and Efficiency in Thrift and Credit Cooperatives". It has, therefore, been an age-old practice with all cooperative movements to have their own educational and management facilities at various levels. ICA's three Regional Offices for South-East Asia, East and Central Africa and the recent one for West Africa provide an opportunity for interaction among educationists at the international level. The World Council of Credit Unions' continental

chapters like the ACOSCA, COLAC and ACUL have provided training facilities in the field of cooperative credit, through their establishments in Panama, Nairobi and Togo. I had the privilege of visiting the impressive training institution set up by the Caisse Populaire Desjardins in Levis in Quebec. In English speaking Canada, there is the Cooperative College in Saskatoon. The Movement in our host country, India, is underpinned by an extensive network of educational institutions which span the whole country. However, our educational techniques and philosophy have been borrowed entirely from business colleges which prepare managers for institutions whose ethos is dissimilar to our own. The point to examine, therefore, is what approach do we need to adopt in training people for leadership positions in an institution which holds the member-owner as supreme and whose origins stem from the idea of providing a commonly felt service rather than maximizing its own profits, pushed to its logical end, this will call for an almost total revolution in our educational work.

Literature will need to be produced which will emphasize cooperative ideology and aspirations and help in the formation of skills in making realistic market decisions. Faculty members will have to be re-trained. We will have to move away from advising the managers on how to "manipulate the consumer" to areas of accurate consumer information and production, to steer the consumer through the plethora of goods, all basically by the same available in industrial societies and which involve considerable waste, the recent attempts of the

Swedish consumer movement in this respect are praise-worthy, highly innovative and worth further study. If service, rather than the maximisation of profits, is the object of cooperative activity, is it not worth while developing the social balance sheet—as is done in the French industrial cooperatives—as an evaluation tool of a cooperatives' end of the year result rather than the mere enumeration of assets and liabilities? Clearly the whole subject need deeper and sustained reflection. Although, education and management training do not figure directly in our conference programme, we will ignore it at our own peril.

Cooperation in India

The immense range and scale of cooperative development here in India, Mr. President, is particularly impressive. Something like 40% of the people of the world live in the two countries, India and China. I am very glad that participants at this Conference will be able to study the situation in these countries at first hand and that my countrymen will be able to present their experience to them. Mention should certainly be made of the Indian fertilizer project and of cooperative sugar mills in India. Some rural banks in India are now nearly a hundred years old. As against the supply of only 3% of the credit requirements in 1950-51 cooperatives now meet more than 40% of the credit needs of the farmers. Short-term loans advanced by the credit cooperatives increased from Rs. 230 million in 1950-51 to Rs. 11,000 million (Rs. 11 billion) in 1977-78. The loans advanced for medium-term and

long-term purposes have considerably expanded from Rs. 13 million in 1950-51 to Rs. 1520 million in 1977-78. I think it is fair to say that cooperative development has now reached a stage where it has begun to exercise an important influence on wider social and economic change. New forms of social and economic endeavours which lend themselves to cooperative forms of organisation should be explored. I know small examples, for instance, of medicine being organised on a cooperative basis exist; possibilities of replication in a society where cheap health care is an urgent need must be examined.

Unemployment

One of the major problems currently being experienced both in industrialised and in developing countries is unemployment. It is estimated there are more than a hundred million registered unemployed in the world—and many millions more underemployed, especially in the developing countries. More young people will be looking for jobs during the next ten years. Attempts to reduce unemployment during the post-war years by Keynesian policies have had some success; but have tended to lead to inflation, especially since the increase in oil prices in the seventies. Attempts to control inflation by monetarist policies have often resulted in more unemployment. The present UK economy is a case in point.

Cooperative development, however, can help to reduce unemployment without adding to inflationary pressure and increasing attention is being paid in

both industrialised and developing countries to the formation of workers' cooperatives as a way of reducing unemployment. Our comparative study of this kind of cooperatives in Indonesia, India, Senegal and Peru has yielded some interesting results. In Britain the Government set-up a Cooperative Development Agency in 1978 which has been mainly concerned with the formation of workers' cooperatives; it has already achieved some success. In Italy, Law 258 was passed in 1977 with the specific purpose of encouraging the formation of workers cooperatives to reduce unemployment among young people.

Workers' Coops

Historically workers' cooperatives have made rather less progress than many other forms of cooperatives, partly because of the problem of providing adequate finance and partly because of the blurring of lines in the respective roles of workers and managers. Capital required per member is often greater than in the case of other kinds of cooperatives; risks tend to be higher. Today, interest in worker' cooperatives is increasing in many countries and where they are successful it is often because they have close links with financial institutions—such as thrift and credit cooperatives and with professional training institutions. One of the most remarkable examples of a successful industrial cooperative is at Mondragon in the Basque Province of Spain where considerable industrial activity has been sustained over a period of time. It is important to note that the key to the success there has

been the Caja Laboral Popular, the bank built upon the savings of local people. We have only three days ago sent an ICA mission to Spain to bring them closer to the international family of Cooperators. In the complex of organisations which constitute the Caisse Populaire Desjardins, "Le Credit Industrial Desjardins, Inc." is envisaged to play a more active role in redressing the distortions in the Quebec manufacturing sector and in rectifying the manifold problems which small and medium-sized firms are facing in Quebec. I recall that some time ago while visiting the Maharashtra Cooperative Bank in Bombay, I was informed of the creation of a small cell which had been set up to develop, identify, and evaluate projects for setting up small industries in the countryside which would both counter unemployment and provide expanding investment opportunities for the Bank. Thrift and credit cooperatives thus play an important role in helping to provide workers' cooperatives with much needed capital without themselves becoming involved in commercial risks.

Inflation and Savings

The situation for credit institutions, Mr President, has been made difficult by the worldwide phenomenon of inflation. Inflation is sometimes regarded as an alternative to unemployment; but many countries in the 1970's have been faced with high unemployment combined with high inflation. The rate of inflation is now more than 10% in most countries and more than 25% in far too many. It has affected both the planned economy and market

economy countries and has tended to increase since the sharp increase in oil prices at the end of 1973. Inflation is a matter of particular concern to thrift and credit cooperatives because the return on savings may be offset to a very large extent by the fall in the real value of money. How can people be asked to save if the value of those savings is destroyed by inflation? Of what worth are long-term deposits if their real value is in continuous decline?

The thrift and credit cooperatives and credit unions are studying the problems of inflation which is a very serious one for them. A Study Group formed by the International Liaison Committee on Cooperative Thrift and Credit met in October 1974 at Bischenberg in France, and came to the conclusion that while various governmental or other guarantees might help to protect small savers, the problem ought to be attacked at its roots by dealing with the mal-distribution of wealth, income and power and bringing about a more equitable distribution of wealth and a greater diffusion of power. The problem has been that attempts to control inflation by monetarist policies have tended to lead to unacceptable levels of unemployment while attempts to introduce incomes policies to prevent rising costs driving up prices have been resisted by trade unions on the ground that they do not apply fairly to all incomes. At the recent ICA Congress, it was suggested that in longer term cooperative development itself could help to bring inflation under control by bringing about a fairer distribution of incomes. But, in more practical terms inflation has brought the time tested practice of limited return on capital in

cooperatives under severe strain. In an era of high interest rates, members have been attracted to placing their money in more remunerative channels and this has adversely affected the financing of cooperative societies from internal sources by reducing the rate of capital formation. It is important to remember that the principle is that the return on capital in cooperative societies is to be limited, not necessarily low: we are sometimes confused on this point conditioned as we are by our history and origins which go back into poverty. An adequate return linked to the productivity of an organisation will not necessarily make a cooperative into a speculative organisation.

Exchange Fluctuations and Currency Speculations

It was the varying success of different governments in keeping inflation under control that led to the collapse in 1972 of the international monetary system created at Bretton Woods at the end of the Second World War. This brought floating exchange rates and currency speculation and also led governments to raise interest rates to protect their currencies. Interest rates were also raised as a result of monetarist policies to control inflation and the interest rates in excess of 20% in some countries have had adverse economic consequences.

For example high interest rates may result in a currency being over valued and have an adverse effect upon exports. They also make it more difficult for new enterprises to be established and provide new jobs—and more difficult for new

industrial cooperatives to be established. Excessive interest rates have particularly adverse effects upon thrift and credit cooperatives and credit unions, especially when combined with inflation and currency speculation.

Exchange fluctuations and currency speculation also have a highly adverse effect upon international cooperative lendings: and this aspect will no doubt figure in the discussions of the International Inter-lending Programme initiated by COPAC. I should like to congratulate the Joint Committee for the Promotion of Aids to Cooperatives (COPAC) on its work in this field, and the World Council of Credit Unions which has been behind this important initiative and especially COLAC on progress so far with inter-lending and guarantee funds in Latin America. Our Raiffeisen friends will no doubt tell us how their guarantee funds operate.

Thrift and credit cooperatives and credit unions, Mr. President, have an important role in coping with the problems created by the collapse of the international monetary system. It is no part of their purpose to make profit from speculation in currencies of gold or commodities—cooperators can only deplore such speculation by transnational corporations, by financial interest or by governments. They need to collaborate to build a better system. The International Cooperative Bank in Basle has been providing banking services to the International Cooperative Movement for many years. A report from the International Cooperative Alliance published by the ILO and the FAO in 1974 put forward

suggestions about extended international collaboration between cooperative banks, the Regional Development Banks and United Nations Agencies for the further development of a strong international cooperative banking system.

Cooperatives and Energy

The dramatic development of industry and agriculture over the last hundred years has been to a large extent built upon cheap oil. There may be major new discoveries of reserves oil ; but the era of cheap energy is drawing to a close. Those countries that have large reserves know that they are not unlimited and oil prices will continue to rise faster than other prices as they have done in the seventies. The need to conserve energy calls for a more responsible approach by producers and distributors. Oljekonsumenterna, the Cooperative Organisation of Oil Consumers which has the largest market share in Sweden, and the International Cooperative Petroleum Association have shown that Cooperatives can handle oil in a responsible way. The big international oil companies, however, are driven by their thirst for profit like other transnational corporations and have shown little regard for the protection of the environment or the conservation of natural resources.

It is interesting to recall with pride cooperatives concern with the supply of petroleum long before the subject burst upon the attention of the world so spectacularly in recent years. As long ago as the 16th Congress of the ICA held in Zurich in 1946, a

resolution was passed calling for the international control of world oil resources and the administration of Middle East oil by an authority of the United Nations. This objective was pursued by the ICA through a series of sessions of the Economic and Social Council of the United Nations. My distinguished predecessor, Mr. Thorsten Odhe, the then Director of the ICA, presented the resolution at the 5th Session of the Council. It was welcomed by a majority and actively supported by the World Federation of Trade Unions ; but was unfortunately blocked by the British. A new resolution was passed at the 17th Congress of the ICA in 1948, and was presented to the 9th and 10th Sessions of the Council and supported by impressive documentation, and was included in the Council's working programme, but in the 12th Session, it was again blocked.

Mr. President, the world's dwindling oil resources are today controlled by OPEC and the big oil companies, instead of by any international organisation. If real progress should be made towards a New International Economic Order the domination of world trade and production of oil and other commodities by giant transnational corporations run for the profit of a few is likely to become unacceptable to world opinion. Economic colonialism may go the way of political colonialism and ways and means may be found of harnessing the immense energies and capacities of the transnational corporations for the good of mankind—perhaps by a wider application of cooperative principles.

The consumption of energy by the cooperative

sectors—fisheries, agricultural, housing is substantial. The ICA has recently taken new initiatives to promote support for the conservation of energy by agricultural cooperatives in the interests of the world community. At the meeting of our Agricultural Committee in Moscow, a Working Group on Cooperatives and Energy was established which produced a note on the development of an FAO/ICA Energy Programme for Agricultural Cooperatives. This was presented to the FAO which reacted positively and who will produce a paper outlining an action programme in the field of energy and cooperatives including promotion and project proposals for consideration by an international conference.

All kinds of cooperatives do what they can do to promote energy conservation and the energy crisis was discussed at the Meeting of the ICA Central Committee in Stockholm in 1975. Electricity cooperatives in the USA and elsewhere have shown that electricity can be generated and distributed by cooperatives at the lowest possible price to consumers. Agricultural cooperatives have contributed to the development of alternatives to petroleum such as Gasohol in the USA and Biomasse in France. In Brazil alcohol already accounts for 20% of fuel consumption ; but the energy crisis makes the conservation of forests and reforestation programmes a matter of extreme urgency. While companies have exploited forests as ruthlessly as farmlands, cooperatives can make a major contribution to conservation programmes as the full extent of environmental damage becomes apparent.

Cooperatives and the Poor

While thrift and credit cooperatives are important in rural areas, especially in association with agricultural cooperatives, they are also important in towns and people are moving into towns so fast that half the world's population may soon be living in towns. Extreme poverty can be even more devastating in big cities than in the countryside ; and small savings even more important. Thrift and credit cooperatives have been very much involved in the raising of living standards in developing countries and have had much first-hand experience of this. But developing countries have changed considerably since the first International Conference of Thrift and Credit Cooperatives in Jamaica in 1966. All countries that do not belong to OCED or Comecon are not regarded as developing countries ; but they vary greatly. More than 120 of them now belong to the so called "Group of 77". Some such as Korea, are industrialising fast. Some are immensely rich from oil. About 30 are desperately poor. And it is with the problems of the poorest countries and of the poorest people in other countries that thrift and credit cooperatives and credit unions are particularly concerned.

In the early seventies, Mr. President, the United Nations Research Institute on Social Development published a series of eight studies on agricultural and other cooperatives in developing countries. These argued that in certain developing countries, cooperatives tend to be of benefit mainly to the larger and more successful farmers without reaching

the poorest sections of the community. The studies were not however, very specific about possible alternatives to cooperatives and did not demonstrate that private or state organisations would be likely to be any more successful in reaching the poor. In 1976 the Government of Tanzania set up some parastatal organisations to replace agricultural cooperatives that had been established for many years, but recently has appointed a Commission to consider whether regional marketing unions might not, after all, make a better job of agricultural marketing and supply, as was the case before these were superseded by Ujamaa villages.

In July 1977 the ICA organised an Experts' Consultation on Cooperatives and the Poor. The Consultation discussed a variety of ways in which cooperatives might help the poor more effectively, but pointed out that poverty was not so much the result of any weakness of the cooperative method as of the inadequacies of the policies of governments that tolerated extremes of wealth and poverty. It is only with great difficulty that the very poor can accumulate sufficient savings to form cooperatives and help themselves. It is primarily thrift and credit cooperatives that are able to do this but their task is all the more formidable if government tolerates the exploitation of the many for the profit of the few instead of adopting measures such as land reform and tax changes designed to bring about a more equitable distribution of wealth and income.

Small Farmers Development Programmes

In some countries, deliberate efforts are being

made to ensure that the benefits of developmental projects reach the poorest sections of the community. The FAO World Conference on Agrarian Reforms and Rural Development with its emphasis on people's participation and organisation has provided a major fillip to this approach and underlined the role of non-governmental organisations and we shall no doubt watch its follow up with interest and care. The Small Farmers Development Programme in Asia and the Far East, conducted under the joint auspices of ESCAP and FAO, with its twin objectives of "increasing the ability of the target groups to receive and to utilize services and supplies of government departments and agencies, thereby increasing their income, and the capacity and motivation of these organisations to serve the low-income rural families" has led to the establishment of pilot projects in Nepal, Bangladesh and the Philippines. A recent workshop in Kathmandu noted that evaluation studies had indicated an overall positive economic impact ; income had increased and higher agricultural production and employment—generation had been registered. It is, however, early days yet. Ultimately the success of such projects will depend upon the political will governing a nation which would favour equitable distribution of wealth and, therefore, power rather than the obscenity of extreme riches and abysmal poverty.

Collaboration among Cooperatives

I must now refer, Mr. President, to the great divide which has characterised our movement, and which, unfortunately, has denied the potential power

which a unified movement can exercise in giving direction to social and economic change. I am referring of course to the producer and consumer aspects of the Cooperative Movement. Both these broad streams of the movement in the course of their impressive advance to present day achievements—and the achievements are impressive—have created additional activities according to the needs their members have experienced. Thus, one finds, for instance, parallel banking and insurance structure being created by their parent consumer or agricultural organisations ; in some countries agricultural organisations have created consumer shops and are thus, in direct competition with the consumer movement. In some cases, they are not even aware of the existence of the other ; more often they stubbornly refuse to reach across to each other for undertaking joint initiatives. ICA's Commission on Cooperative Principles was aware of this when at the Vienna Congress it added the new principle of Collaboration among Cooperatives.

Recognising the scope for coordinated action, the International Cooperative Alliance appointed an International Working Party to study the subject and to make recommendations to the members. The Working Party noted a number of examples of intra and intersectoral collaboration at the national and international levels in the fields of production, commerce, banking, trade, etc. Much of this is achieved under the auspices of our nine Auxiliary Committees. In Hungary, for instance, the consumer and the industrial cooperatives have formed a joint enterprise, the Hungarcoop, which collaborates with coopera-

tives in developing countries in building complete factories. The International Cooperative Re-Insurance Bureau had in 1980 forty-one member societies from 26 countries ; they participated in treaty exchanges and the value of annual premium exchanges was \$ 18 million from over 1 000 contracts in force.

There is also sectoral collaboration across national frontiers in the Scandinavian countries in the form of Nordisk Andelsforbund and Nordisk Andelsexport. The French agricultural cooperatives sell wine to the Danish consumer movement, the biggest purchaser in the country. Nevertheless, examples of intersectoral collaboration are few and far between at the national level and still more so at the international plane. If, as I said at the beginning of my speech, we are to move in the direction of an alternative cooperative social and economic system, we must enlarge such collaboration by giving preference to other parts of the cooperative system and thus, playing a mutually re-inforcing role. Clearly there are genuine difficulties and no economic transaction can lead to a sustained relationship unless it offers advantages to both the parties. But I do think that the producer-consumer dichotomy has been over-drawn. The fact is that one cannot exist without the other and it is this complementarity which needs underlining in our kind of economics. We in the Movement must not fall into this trap, and be constantly aware of the threads that tie together the various elements which go to form the Cooperative Movement in all its rich diversity. The thrift and credit cooperatives, dealing in the neutral area of finance required both by the production and con-

sumption wings, and the power which finance confers, can help to provide the glue.

In a world dominated by large corporations and by governmental agencies, cooperatives seek a diffusion of power through a genuine and effective democratic control by the men and women who are their members. I want to emphasise the essentially voluntary character of cooperatives and the importance of the initiative in forming them coming from the people themselves and not from government. In many developing countries governments have been so active in promoting cooperative development that many cooperatives have become unduly dependent upon governmental support ; a long-term advantage has been sacrificed for an apparent short-term gain. The skill in the responsible exercise of power so important in the building of a nation will be lost.

Let me hasten to add, Mr. President, that I am by no means running down the work of a large number of sincere and devoted government officials who have given of their best in the promotion of cooperatives. But I am also not forgetting the pernicious intrusion of politics and political elements where Boards of Management, democratically elected, have been superseded not because they were unfit for cooperative work but because they did not belong to the group which had power at a particular point of time. Such preemptory changes inhibit the emergence of long-term policies, limit members faith in their society and deny to the average individual a chance to see this thinking and effort

work through to worth-while fruition. The cooperative should not be deflected from its principal aim under the force of external pressures.

I suggest, therefore, that governments should concentrate more on creating conditions favourable to cooperative development by the provision of a more adequate infrastructure. But in proportion as governments concentrate more on creating conditions favourable to cooperative development rather than on direct financial support, the role of thrift and credit cooperatives becomes even more important. They can provide the savings from which other kinds of cooperatives can grow. Perhaps there is a need for a wide-ranging study of the experiences in a number of developing countries and of codifying, the minimum and maximum tasks governments should perform in the essentially voluntary area of the Cooperative Movement.

Conclusion

Mr. President, distinguished delegates, ladies and gentlemen : I have been rather long and I must now close. Before I do so, however, let me make three very brief remarks about the future work of the International Liaison Committee. While the Committee has done, as I said, valuable work on extremely modest resources, it is not enough to organise periodic conferences, important though these are. It is shortsighted economy not to put more strength and dynamism into the Secretariat, which serves the widespread and important sector of thrift and credit. I suggest as a first measure it should undertake work along the following three lines.

First, it should continue its present activities and expand these in response to the needs of its members. This would require an interactive process between the Secretariat and the members. A vigorous communications network which will link the members in active and meaningful dialogue will need to be developed. Study visits and training programmes at the international level should be organised ; the Rabo-bank has made a start and its initiative should be studied and, if found useful, emulated ; ICA's Banking Committee has an old-standing exchange programme. The International Liaison Committee should help to accelerate these schemes.

Secondly, the ILC should undertake programmes of research and evaluation. If the thrift and credit movement is not to split according to countries or ideology, there is need for emphasising the shared history of the various branches of our movement. Ideological connections should be traced and articulated forcefully at the international level. The origins, similarities, shades of differences between credit unions, Caisse Populaire Raiffeisen societies, and Mutuels need to be understood and brought out clearly in ideological and historical terms. We originated from a broadly similar philosophy and, in course of time, have had national particularities imprinted on us. Diversity lends richness but we must not forget our common heritage. We must emphasise our unity and not take pride in our differences.

And, finally, in the highly volatile financial situa-

tion when inflation is rampant and the Bretton Woods system is showing signs of cracking, we must be bold enough to support international initiatives in the quest for a New International Economic Order of which a well-organised International Inter-lending Programme can be an important element in relieving poverty in the Third World.

Thrift and Credit Cooperatives in South-East Asia—An Overview

Background

The cooperative form of organisation as we know it, came to be introduced into most Asian countries in the form of credit cooperatives as a means to fight chronic indebtedness among the mass of the people who were mostly farmers. At the turn of the century, peasant agriculture was mostly at subsistence level, hardly contributing any surpluses to the mass of the peasantry who were mostly impoverished. Absence of clear title to land, insecurity of tenure, absentee landlordism, low yields, unrestricted import policies, and consequent low

prices for agricultural products all contributed to perpetuating rural poverty and enriching the bigger landlord and in usurious money lender, whether from the village itself or from outside. The commercial banking sector had little or no time and money to be spared to satisfy the small needs of the small farmer. Governments too, whether colonial or otherwise, were far too busy concentrating on revenue collection and international commerce and hence had no effective programmes to meet the massive problem of rural poverty. Other institutional sources from which assistance was available to other sectors were woefully absent in the rural peasant sector and over 80 per cent of the population at that time would be mostly rural peasant. The peasantry notwithstanding their levels of poverty had evolved mutual assistance schemes which provided them with the necessary labour and other minimum support on a non-monetary basis for their agricultural and other pursuits but such mutual assistance schemes hardly helped to generate surpluses which would eventually pull them out of the rut of poverty—these schemes helped maintaining a subsistence economy—and surpluses when such were available went to enrich the landlord or the moneylender, and not the peasant.

It was against a background of this nature that the more enlightened colonial administrators of the then British Empire, sought to find cooperative solutions to alleviate the conditions of the peasantry. Success achieved through the Raiffeisen approach in Europe inspired these administrators to experiment with the model and consequently the cry was

“Find Raiffeisen” as a means to overcome the chronic indebtedness of the peasantry. Thus the cooperative credit society, on the first instance of unlimited liability and later of limited liability, made its appearance in many of the Asian countries around the first two decades of the 20th century, thus giving birth to a century of significant co-operative development in many of the countries of the region, the developments extending to practically all facts of economic activity even in the post-war complex industrial society of today.

Organisation

The early credit cooperatives were small in size, with a very limited membership, often of the more well to do in the village, the quantum of the loans too were limited and were mostly of a short-term nature. The loans were given on the guarantee of two sureties who were also members of the society—the guiding principle was that of self-help and mutual help and the only external assistance, when such was available, was from limited funds provided by the government under various schemes of assistance to the poor. The organisers of the societies emphasized both thrift and credit and in some situations borrowings could be only upto a percentage of one's own savings. Personal knowledge between members was given much emphasis. The Meclagan Committee in India commented as follows : ‘we would lay stress on the importance of small beginnings. The members of a society should be few to start with and increases should be gradual and the ultimate total moderate. The main ad-

vantage claimed for large societies is economy of management, but this consideration scarcely affects rural society. On the other hand, small societies are more easily supervised and trained in cooperative principles just as small classes are more easily taught in schools.”

The emphasis from the beginning was therefore on small size and a high educational content. To this day many of small sized cooperative credit societies set up in the early year, still function, performing a useful service at the village level.

Pattern of Development

The general pattern of development in the co-operative credit sector was as follows :

- (i) Thrift and Credit Cooperative with unlimited liability being converted to those with limited liability. This step helped in broadening the base for membership and enabled a larger number to benefit from the society.
- (ii) Thrift and Credit Societies being established among employees in the institutionalised sector—these were to grow to mammoth proportions in certain countries, with membership extending to several thousands—in some countries these went under the name of credit unions—e.g. Australia (669 societies, 1.3 million members and 1.7 billion Australian Dollars assets) Thailand etc,
- (iii) Federation of primaries into secondaries at

district or regional levels leading to formation of an apex organisation at the national level.

- (iv) The primaries federating to form Cooperative Banks at the district level, affiliating with central cooperative banks at the regional and national levels.
- (v) Where development did not take place in line with (iii) or (iv) above, the credit function in some situations got integrated with the Agricultural Cooperatives and Multi-purpose Cooperatives that emerged after World War II.
- (vi) Continuation of the Thrift and Credit Societies on the same basis as in the beginning, but now depending on cooperative or commercial banks for their borrowings and for the investment of their surpluses. In many countries of the Region the simple village level credit cooperative society flourishes to this day, organised and maintained by a hard core of committed cooperatives who are happy, in some situations, that their smallness has left them outside the pail of increasing governmental attention and control.

The growth in this sector could be seen from two examples given below :

The Cooperative Credit Movement in Sri Lanka had strengthened its structure with a network of District Cooperative Banks and a National Federal

Bank—but these were taken over by the People's Bank which now functions as a Nationalised Bank, but with a greater force on cooperatives.

	Year	No. of coops	No. of members	Working capital
Malaysia	1925	4	500	8,980 M\$
	1929	30	5933	399,817 M\$
	1979	700	593,000(aprx.)	over 400 m. M\$
Sri Lanka	1916	71	6027	10 000 US\$ aprx.
	1945	1697	49,638	700,000 US\$ „
	1977	3075	238,120	2,541,000 US\$ „

Loans were given mostly in cash on a short-term basis - to cover such needs as cultivation expenses, purchase of raw materials for artisans, capital for petty traders and at times for the redemption of mortgages or the repayment of old debts. Very few societies went into medium-term loans to cover such needs as improvement of lands, purchase of bullocks etc.

In the case of institutionalised cooperatives covering mostly salary earners, the purposes were more flexible with recoveries being made on the monthly pay sheet of the employee. Where this latter facility was denied at a later stage e.g. in Malaysia, the apex National Organisation set up its own Bureau to perform this service.

It must be mentioned, however, that notwithstanding the steady growth of cooperatives, in the credit sector and elsewhere in such fields as agri-

cultural production, agricultural marketing and multipurpose, the cooperative share in the total leading operations zis-a-zis the agricultural sector was insignificant—in most situations it was less than 10 per cent, with the balance funds coming from friends, relatives or the money-lenders.

The aftermath of the war, the emergence of independent states and introduction of planning into the sphere of economic development had their repercussions on the cooperatives, with most governments looking on the cooperatives as useful instrument for the very onerous task of social and economic development.

The post-war period showed the importance of credit in the massive efforts made by most countries to increase productivity and to achieve their goal of self-sufficiency in food. To achieve this objective, many a government had to evolve new strategies for financing which involved more the agricultural cooperatives and the multipurpose cooperatives than the small-sized village credit cooperatives. The recommendations of the Royal Commission on the Cooperative Movement in Ceylon, which was headed by Dr. Laidlaw, reflects this changed emphasis. The Royal Commission said: "whatever may be said for social values of small cooperatives—and it cannot be denied that they are often great—their economic benefits are often slight and of short duration. We therefore recommend that the number of primary societies be greatly reduced, and that the first general objectives of a new structure should be a much smaller number of large primary societies."

This is a trend that is noticeable in all countries of the region, where the concept of viability was given first consideration in determining the size of the co-operative.

Integrated Credit Service

Along with this concept evolved also the idea that any sound credit policy could be developed only if the supply of credit in cash and kind, was linked with the marketing of the produce, with the entire procedure being accompanied by a system of well planned advisory services, whether it be in the farm sector or in the handicrafts and small scale industrial sector. What was now being encouraged was a package programme which included credit, extension, supply and marketing. Many of the small size village cooperatives, by their own limitations, were unable to match the services, now being rendered by the large-sized agricultural or multipurpose cooperative society. But yet many of them continued to contribute their mite in meeting at least some of the credit needs of those with limited means. A factor of significance and one which has to be taken into consideration is that notwithstanding the massive support provided by the banks and the governments to this sector of agricultural credit through the new organisations, many a small village credit cooperative still continues to function which in effect mean that there is yet a sector which cannot qualify for assistance through the government schemes and who are satisfied through these village cooperatives.

It would be appropriate to trace the growth of

the credit function in situations where the credit function became a part of the agricultural/multi-purpose cooperative society. A good example would be that of Japan. The Cooperative Society Law of 1900 made provision for the organisation of credit cooperatives besides marketing, processing etc.—but by 1906 the credit cooperatives had taken on marketing functions too. In time these societies performed credit, marketing and supply function—but they were operated independently and there was not much linkage between the functions.

The new policies followed by the government in the post-war period led to the establishment of the multipurpose type with all services required by the farmer being provided under an integrated approach—the societies to perform Guidance Activities, Marketing Business, Purchasing Business, Credit Business, Mutual Insurance Business, Utilisation and Processing Business, Education Activities, and also legal activities such as measures to safeguard prices, easing taxation, trade liberalisation etc.

Cooperative financing, covering over 15,000 agricultural and fishery cooperatives and over 10 million members are combined into a vertically integrated structure with the agricultural and fishery primary cooperatives at the base, 47 credit federations at the prefectural level all combining in the Norinchukin Bank (the Central Bank for the nationwide systems of Agricultural, Fishery and Forestry Cooperatives) at the apex. The financial details in respect of the Norinchukin Bank are quoted below to give some idea of the strength of the credit structure in the

Japanese Cooperative System (the figures relate to March 1980) :

Total Assets	47,358 million US\$		
Deposits	34,049	„	„
Bank Debentures	8,262	„	„
Loans & Bills	21,786	„	„
Discounted Securities	19,403	„	„
Capital funds	301	„	„
Profits after taxes	46	„	„

The growth pattern is similar in Korea where the National Agricultural Cooperative Federation functions as the Apex Level Bank both for internal and international transactions.

The overall situation in respect of Credit Societies in the member countries of the Region excluding India would be that there are over 38,500 credit cooperatives with a membership of over 48 million with capital reserves of over 15 million U.S. Dollars (this figure refers only to the credit cooperatives/credit unions and do not include credit sector in the agricultural and multipurpose cooperatives).

Problems and Prospects

In many countries of the Region which commenced cooperative activity with the introduction of the cooperative credit society the small-size village cooperative credit society, and the institutionalised cooperative credit union or thrift and savings

society still exists. Where such societies are linked with a cooperative banking structure there seems to be greater progress, better disciplines in financial management, better schemes for increasing savings and better recovery performance.

Where such societies are dependent on commercial banking sector for their borrowings the societies appear to be handicapped in their operations due to insufficient funds and consequently appear to be unable to infuse the necessary confidence to facilitate greater savings from members. As the societies at the village level are often quite small, the management is weak and is able only to perform routine functions—often the management is performed by voluntary workers in their spare time. There is no supporting scheme to enthuse these organisations to dynamic action—even the government departments concerned with cooperative development have tended to place low priority in this sector, as compared with their intimate involvement in respect of the agricultural credit sector often operated under government plans and subsidy schemes.

Overall, both in the small size credit cooperative and in the integrated type, many of the cooperatives suffer from the absence of guarantee support both in respect of deposits and in respect of loans. Though some movements have been able to obtain limited government or central bank guarantee, even to set up a Cooperative Credit Guarantee System (Indonesia), yet the performance has not been as would inspire confidence. This is an area where much can be done which will help the credit cooperative to perform better.

Another factor to be considered is the increasing competition credit cooperatives and integrated cooperatives are facing in this field from commercial banks, government savings schemes, post offices and other institutions, which in recent times have intensified their activities in this field.

Another factor to be noted is that with increased mechanisation and even computerisation of services, the customer stands to get a better service from the private sector banking institution as against the old systems followed in many cooperatives involving a large amount of paper work, authentication and consequent delay.

A further factor to be considered is that the new institutions are offering new loan schemes coupled with insurance schemes which tend to make their propositions most attractive to the borrower. In the cooperative sector, even under some government schemes, loans are still available for the cultural operations and do not cover such aspects as subsistence of the farming family during the cultivation period or even contingencies—all of which makes the borrower borrow from several sources to meet his credit needs, and often being compelled to postpone repayment of the cooperative loan to the lowest priority.

Conclusion

In most countries of the Region, cooperative thrift and credit continues to perform a valuable and a significant service. The prospects are that co-

operative credit will continue to be available both through the small sized credit cooperative and through the integrated cooperative. The need would be one of enthusing and energising this sector to (i) inspire the necessary confidence among the members to make this aspect more dynamic, (ii) to provide mutual guarantee system as will inspire the necessary confidence, (iii) to build up the necessary resources to make more funds available for lending, (iv) to develop sufficient managerial skills as would help to introduce a touch of dynamism in the credit and savings operations, (v) to develop attractive saving schemes to mop up surpluses at the rural level, (vi) to devise attractive loaning policies and schemes as will enable a member to get all his credit needs from one source, (vii) to develop insurance schemes which would ensure some support to the farmers/fishermen in the event of calamities like crop failure, (viii) to gradually introduce schemes which will avoid unnecessary paper work and consequent delay, (ix) to make available through the cooperative assistance in financial planning, family budgeting etc., (x) to develop better and more meaningful member relations programmes, (xi) to strengthen the supporting structure for credit cooperatives with District and Apex level Federations or Cooperative Banks, (xii) to strengthen the international supporting structure both by way of providing guarantee and avenues for borrowings and investments.

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