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Co-operative Organization: An Introduction

by: B.A. Youngjohns

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# **CO-OPERATIVE ORGANISATION An Introduction**

**by B. A. Youngjohns  
Co-operatives Panel  
Intermediate Technology  
Development Group**

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**t**echnology  
Publications Ltd

## **Co-operative Organisation: An Introduction**

This booklet is about co-operatives, how they are formed, how they work, what the legal implications are, and what role they play in development. It sets out the principles of a co-operative and explains in some detail the various forms it can take, from co-operative farms to industrial production. It also deals with the government's role and the various controls which it places on such organisations.

Co-operatives can be "primary", or join with others in a federation. All this is explained in this useful introductory work on the ways people working together can combine to form a legally established organisation with a continuing existence.

B. A. Youngjohns is an adviser on co-operatives and a member of the Intermediate Technology Development Group's Co-operatives Panel. He has had wide experience of co-operatives both in the U.K. and overseas.

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## Introduction

1. The purpose of this manual is to describe what co-operatives are, how they are organised, what they can do and how they relate to other types of organisations. We also look at some of the more common problems likely to be encountered in setting up and running co-operatives in developing countries.

### What is a co-operative?

2. In ordinary language, the word 'co-operate' means 'work together'. This idea of working together is the underlying principle on which the co-operative movement is based, but, in its special, technical sense, the word 'co-operative' is narrowed down to mean a *formal, legally-established organisation* with a continuing existence based on the principle of working together. An informal group of farmers collaborating to harvest their crop is not a co-operative although it may be the germ of one.

### Definition

3. There have been many attempts to define a co-operative. One of the best, perhaps, was used in a publication of the International Labour Office:

"A co-operative is an association of persons, usually of limited means who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled business organisation, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking".

4. To be more precise, the 'fair shares of risks and benefits' is achieved by the manner in which the capital is raised and the profits distributed. Every member is required to contribute a minimum sum in share capital, although in rural co-operatives this may be a small amount. No individual member is allowed to have more than a stated maximum number of shares. Profits, or surpluses as they are usually called in co-operative circles, are dealt with as follows. Firstly, there is an allocation to reserves, that is to say, the collectively-owned capital of

the co-operative. Secondly, a fixed and limited rate of interest is paid on share capital. Thirdly, a return is made to members in proportion to the amount of business they have done with the co-operative.

5. Co-operatives differ from most other types of voluntary association, in that they are *business* organisations. As businesses they differ from private enterprise in the form of ownership, control and in the way they distribute their profits. A co-operative is owned by its members, and membership is open to anyone who can benefit from it. Control in a co-operative is on a democratic basis, in which each member has one vote and one vote only. We have already seen, in the previous paragraph, that the profits or surpluses belong to the members. Co-operatives, also, differ from private enterprise in that they are not only concerned with doing business with their members, but are also, since they are associations of people with a common interest, concerned in promoting that interest in every way not harmful to the interest of others.

### **Principles of a co-operative**

6. The definitions and explanations given in the previous paragraph are made clear by the *Co-operative Principles*. There have been many attempts to list all the principles, but, for our purposes, there are five which are important:

- a. Open membership
- b. Democratic control
- c. Limited interest on share capital
- d. If profits are distributed, it must be on a basis proportional to business done by members with the society
- e. The promotion of education

### **Open membership**

7. Membership of a co-operative should be open to all who can benefit from it. The principle must be interpreted in a reasonable manner. It means that there should be no artificial restriction or exclusion. It does not mean that, for example, a co-operative may not confine membership to a particular geographical area or to a particular type of producer. A village farmer's co-operative must be open to all

the farmers in the village, but it does not offend against the principle if it excludes non-farmers, or farmers who live in another village.

### **Democratic control**

8. A co-operative is owned by, and is run for the benefit of the members. All the members, irrespective of social status or wealth are equal to one another. The co-operative is governed by a general meeting, which all members have the right to attend and at which each member has one vote and one vote only. The general meeting will, normally, elect a committee to supervise the running of the co-operative in between general meetings. Every member has the right to be nominated for election to the committee, and every member has one vote in the election.

### **Limited interest on share capital**

9. The co-operative is not in business to make a profit for shareholders. Nevertheless, it needs to attract share capital from its members, and, to do this, it should pay a rate of interest competitive with that obtainable on savings bank deposits and the like. It is quite common for the maximum payable to be prescribed by law. The principle is that the members should be rewarded for investing in the society, but not to the extent of profiteering. Unfortunately, in very many cases, the principle has been interpreted in a negative sense with the result that members regard share capital as a kind of entrance subscription and do not invest more than the minimum.

### **Patronage bonus**

10. The term 'patronage bonus' has been coined as a short phrase to explain the rather complicated way a co-operative deals with the distribution of surpluses. After making allocations to reserves and after paying the limited interest on share capital, any surplus to be distributed to members is shared out in proportion to each member's trade with the co-operative. This does not mean that additional surpluses must be shared out. They need not be distributed at all. What it does mean is that *if* they are shared out, this is the way it must be done. Nor is it necessary for the bonuses actually to be paid out in cash

— they could, for example, be credited to the members' share capital or deposit accounts. The principle has the double advantage of being fair and of encouraging the members' loyalty to their co-operative.

## Promotion of education

11. Although the co-operative is, it must be repeated, first and foremost a business, it is not *just* a business. It is formed by the members to promote their common economic interests and is, therefore, concerned with improving their performance whether as consumers or producers. Education is an important aspect of this concern. A farmers' co-operative, for example, is concerned with the improvement of farming methods, packaging, processing, marketing and so on. Education is also important for the proper running of the co-operative itself. The members must understand the basic principles upon which the co-operative is based. The committed members and employees must understand their duties. Experience, all over the world has shown that education and training, together with the rules (usually called by-laws, see paragraph 13) which govern the way in which the co-operative is run, are the factors which decide whether the co-operative will succeed or fail.

## Who are the members?

12. The members of a co-operative can be related to the co-operative in three different ways:

- (i) they can be *customers*, purchasing from the co-operative, goods and services of various types;
- (ii) they can be *suppliers*, such as farmers who market their produce by selling it to, or through, the co-operative;
- (iii) they can be *employee-members* who actually work for and in the co-operative which they jointly own. Co-operative farms come into this category, as well as industrial productive co-operatives.

It is quite common for two or three of these relationships to be combined. A farmers' co-operative may sell fertilizer and seed to its members, and, also, market their produce.

## Registration

13. In order to have legal existence, a co-operative must be registered. For this purpose, in most countries, there is a special co-operative law. Under the law, a senior civil servant, usually with the title Registrar or Commissioner, is appointed and given powers to register co-operatives. The law lays down the conditions which must be complied with before registration. The conditions, in fact, embody the co-operative principles which have been discussed in previous paragraphs. A co-operative society must have its own by-laws which govern its operations. These by-laws must be in accordance with the law and in accordance with co-operative principles. For example, the by-laws must provide that general meetings of members must be held at least once a year, and that at such a meeting, every member must have one vote and one vote only. The by-laws must also set out the objects of the co-operative; who are eligible for membership; how the surpluses are to be disposed of and so on. Registration gives the co-operative legal status, enables it to enter into contracts both with its own members and with other parties and, if necessary, to sue or be sued in its own name. Without registration, the members have no legal protection.

## What does a co-operative do?

14. We have seen, so far, how a co-operative is made up. We must now look at what its purpose is. In theory, there is no limit to the range of things which a co-operative can do. Examples can be found of co-operatives taking part in almost every type of economic activity. There are co-operative factories, bus and taxi services, electricity supply services, health centres and labour suppliers, to quote only a few examples. In practice, however, the most important types fall into the following categories:

*Agricultural credit*

*Thrift and credit*

*Supply (including Consumer)*

*Marketing*

*Joint farming*

*Co-operative farming*

*Industrial production*

*Housing*

*Multi-purpose – combination of two or more of the above.*

### **Agricultural credit**

15. An agricultural credit co-operative, in its simplest form, is an association of farmers for collective borrowing. The principle behind it is that a small farmer, on his own, is a poor risk for a bank overdraft. In any case, the interest he would pay would hardly cover the bank's administrative costs. The farmer is thus, either without access to credit at all, or at the mercy of a moneylender, who will charge high rates of interest and probably exploit the farmer over marketing and supply as well. By joining together in a co-operative credit society, the farmers are able to offer the greater security of collective responsibility, as well as offering the bank a single large transaction, instead of a lot of small ones. The members make application to the society for loans, and these are approved or rejected by the committee. The society then borrows a single sum from a bank or other credit institution, and divides the money up into separate loans for its own members. The committee has the responsibility for collecting repayments of the loans when they are due, and the society is responsible to the bank or credit institution for repayment of the whole loan.

### **Thrift and credit**

16. A thrift and credit co-operative goes one stage further, and mobilises the savings of the members as well. A common fund is set up from which the members can borrow. Security can be demanded from the member either by pledging his land or other assets, or by getting another member to act as guarantor. Some thrift and credit co-operatives depend entirely on their own resources; others supplement these resources by borrowing from a bank or credit institution. Thrift and credit co-operatives can operate either in a rural or an urban environment, but tend to be more successful in the latter.

N.B. A credit union is, simply, a thrift and credit co-operative in North American parlance. The principle is very much the same, but the

procedure and names used are somewhat different. Generally speaking credit unions are urban based organisations catering for wage and salary earners.

## **Supply**

17. The principle behind a supply co-operative is that the user or consumer can benefit from collective buying. The benefit might take the form of lower prices, or access to better sources, or, more usually, that the retail profits will be returned to the purchaser. Supply co-operatives are sometimes set up simply because there is no appropriate or efficient supply through normal commercial sources. For example, in some parts of Africa, traders would not handle fertilizer at one time. A consumer co-operative is simply a supply co-operative dealing in general merchandise, such as food, clothing and household requirements.

## **Marketing**

18. The principle behind a marketing co-operative is similar to that of the other types. The small producer, on his own, is either at the mercy of middlemen, or has no marketing outlet at all. His production is too small for direct sale to the consumer, and his bargaining power in relation to merchants is low. He does not have transport, since his own production is too low to keep a lorry busy. He has no proper storage. By joining a marketing co-operative, farmers improve their bargaining position, eliminate middlemen, and provide facilities, such as transport, packing and storage, which the individual cannot do on his own. The full value of the crop goes to the farmer, either because he receives the full price, or because he receives a share of the profits in accordance with the amount of produce he has supplied.

19. There are two basic ways in which marketing co-operatives operate. The first is to act as 'commission sellers' on behalf of producers. The produce is bulked and put up for auction or sold by negotiation. The farmer receives the price actually obtained, less a commission to cover the co-operative's expenses. On delivery of the produce to the co-operative, the farmer may be given an advance of, say, half its estimated value. The balance is paid to him after the produce has been sold. Another way is for the co-operative to buy the produce outright

at the time of delivery. The produce then becomes the property of the co-operative until it is sold. At the end of the financial year, any profit made by the co-operative will, in accordance with the co-operative principle, after allocation to reserves and payment of interest on shares, be paid out to the producers in proportion to the value of produce each has sold to the co-operative.

20. Marketing co-operatives are or should be concerned with more than merely disposing of the crops. Good marketing co-operatives will operate systems of sorting and grading which usually increase the value of the produce, and encourage, or even enforce, standards of preparation and packaging. They will also encourage the farmers to produce crops and varieties which give the best return.

21. It is fairly common too, for marketing co-operatives to go in for the processing of produce, such as ginning cotton or pulping coffee. In doing this, the profits of these operations are also returned to the producers.

22. Although the majority of co-operative marketing is in agricultural produce, the same principle can be applied to other commodities. Fish marketing co-operatives are important in some countries, while, in others, co-operatives market handicrafts and the products of domestic industry.

### **Joint-farming**

23. The principle of a joint-farming co-operative is that small farmers can achieve greater efficiency and can reduce costs by pooling their land for cultivation. Tractors are not usually economic if used on small plots of irregular shape, involving a lot of turning and of moving from one plot to another. A joint-farming co-operative brings the pieces together and cultivates them as if they were a single farm. The individual member, however, retains ownership of or tenant rights to his own plot, and the crops belong to him, although they will probably be marketed by the co-operative. The cultivation costs are charged to each member, usually as a loan to be deducted from the proceeds of his crop. Apart from the more economic use of machinery, joint-farming has the additional advantage of making it economically possible to employ skilled management. Furthermore, the joint enterprise can introduce diversification and rotation, which would not be possible on small individual plots.

24. In spite of these advantages in theory, it has to be stated that the record of joint-farming co-operatives is not, to date, very impressive. The principal difficulty arises from the individualism of the small farmers. Unless there is compulsion (which is contrary to one of the co-operative principles), some of them may not join. If there is compulsion, there is, also, resentment and a loss of the will to collaborate. In either case, labour discipline is a problem. Quarrels break out over diversification because everyone wants the highest-price crop on his plot and so on. Nevertheless, the idea has much to commend it in theory, since it combines the advantage of modern large-scale methods with the avoidance of rural depopulation, and it will undoubtedly go on being tried.

25. Brief mention should be made of a diluted idea, namely of co-operatively-owned machinery cultivating separate plots. This is more akin to a supply co-operative, the supplies being services rather than, or as well as, goods. The idea has been successfully applied in various countries, but does better where the individual farms are, themselves, relatively large and economic.

### **Co-operative farms**

26. The co-operative farm differs from the joint-farming co-operative in that the farm belongs to the co-operative as a whole. The members are either employees of the co-operative, or shareholders by virtue of having been former owners of lands which have been merged. The crops belong to the co-operative, not to members. Members receive interest on shares, wages for their labour, and a share of profits related to the amount of work put in. It is not uncommon for the communal principle to be applied not only to farming but to other aspects of life as well.

27. Co-operative farms have been tried in many countries, including Britain. The collective farms of the USSR are a kind of co-operative, but one of the basic principles — voluntary membership — has been discarded. The best-known examples are the Israeli Kibbutzim. Attempts to introduce co-operative farms in developing countries have not been very successful, although there are occasional examples to the contrary. Apart from the difficulties arising from individualism, labour discipline and so on, mentioned under joint-farming, there is frequently something wrong with the elementary arithmetic. A 500 hectare farm

will, it is true, usually be more efficient than 100 five hectare farms, but not if it has to employ 100 people. It must therefore either shed labour (which defeats one of the most important objects) or retain labour, under-employed, which is not only uneconomic, but is also bad for morale.

### **Industrial productive co-operatives**

28. An industrial productive co-operative is run on similar principles to those of a co-operative farm. Its members are its employees, working in a factory, owned and run by the co-operative. They are paid wages, plus a share of the profits. The management committee is elected by the employee-members. It is therefore, the most complete example of a whole family of schemes for workers' participation in the ownership control of industry. In practice, the completeness of workers' ownership tends to be diluted. On the one hand, there are frequently shareholders who are not employees, such as trade unions, other co-operatives, or retired former employees. On the other hand, there are frequently employees, such as casual labour, who are not members. Some co-operatives restrict membership to skilled workers; others have qualifying periods of service before membership is allowed.

29. In principle, industrial productive co-operatives could go into any kind of manufacturing or service business. In practice, they tend to be confined to businesses where the ratio of capital to labour is fairly low. The reason for this is that if the amount of capital required is much beyond the resources of the members themselves, they would have to borrow heavily from outside, and, inevitably, have to surrender effective control to their creditors. It also means that, in the first few years, at any rate, the co-operative's profits go to pay off the debts and interest, with the result that the members are not really better off than they would be working for a private employer. Businesses in which industrial productive co-operatives seem to do best include building, clothing manufacture, general labouring (on contract), furniture making, and transport services.

Industrial productive co-operatives should not be confused with marketing co-operatives handling industrial merchandise, which merely market the product of individual producers. Nor should they be confused with co-operative factories which are owned by other co-operatives and in which there is no individual shareholding — the workers simply being employees.

## **Housing**

30. Housing co-operatives are either a special type of credit co-operative or a special type of supply co-operative, or a combination of the two. One type of housing co-operative sells houses to its members on an instalment system, retaining ownership itself until the last instalment is paid. Capital over and above the deposit paid by the member is borrowed from building societies, development banks, and so on. The other type builds houses which remain co-operatively-owned and rented to members. Usually, the houses are built by contractors, but there are some interesting experiments in self-help, where the members undertake at least part of the work themselves. A weakness of housing co-operatives has been that they have tended to cater for the better off. There is, however, a good deal of interest in adapting housing co-operatives to provide low cost housing for urban workers. Most countries are still in the early stages, with a good deal of research still to be done, but this might become a very important field for co-operative development over the next few years.

31. Housing co-operatives must not be confused with industrial productive co-operatives operating in the field of building, i.e. a co-operative which builds houses for sale. It is quite common for a housing co-operative to employ a builders' co-operative as a contractor, but the relationships between the two are on a business basis as they would be if the contractor were a private concern. It would be quite wrong for either party to expect the other to allow uneconomic terms for the contract because they are both co-operatives.

## **Multi-purpose co-operatives**

32. The functions described in the previous paragraphs have been separated for the sake of clarity, but it is obvious that some of them can be combined. For example, agricultural credit, supply and marketing go readily together. It is nowadays widely accepted that agricultural credit has the best chance of success if it is combined with supply and marketing. The multi-purpose co-operative offers the farmer a complete service, embracing the whole cycle of his farming activities. Credit finances his in-puts, supplied by the co-operative, which also markets his crop, and recovers the loan at the same time. Other combinations are also possible. For example, agricultural marketing might be combined with the supply of consumers' goods. This

combination is particularly effective where the crops are not seasonal (e.g. copra) and are harvested in small quantities at a time, whenever the farmer needs the cash for the purchase of consumers' goods. Most co-operatives in the Pacific are of this type.

33. While it is not possible to lay down hard and fast rules, care must be exercised to minimise the risk of a clash of interests, in a multi-purpose co-operative, between one section of the members and another. Where all the members are sometimes customers and sometimes suppliers, the risk is not great. But, if some of the members were only customers and other members only suppliers, there might be a clash.

### **Linked co-operatives**

34. An alternative to the multi-purpose co-operative, still favoured in some countries, is a system which retains single-purpose co-operatives, but provides for some kind of linkage between them. For example, an agricultural credit co-operative has arrangements with a neighbouring marketing co-operative to buy the produce from the members who have received loans, and to recover those loans. The credit co-operative members will also be members of the marketing co-operative. An advantage of the linkage system is that the marketing co-operative is not likely to be endangered by the high risks of credit. On the other hand, having separate organisations with separate management makes it more difficult to keep an eye on the debtors.

### **Primary co-operatives -- large and small**

35. All the different types of co-operative we have discussed so far are primary co-operatives. A primary co-operative is one whose members are *individual persons*. A primary co-operative can be either single or multi-purpose and either large or small. It might be a single unit based on a village, or a complex organisation covering a large area, with many branches. The size and complexity is not necessarily related to whether the co-operative is single or multi-purpose. It is perfectly possible to have a large single-purpose co-operative, and, on the other hand, a small multi-purpose co-operative. What makes a primary co-operative primary is that its members are *individual persons*.

## **Federation**

36. The principle of a primary co-operative is that individual persons combine their resources for greater economic strength. The same principle can be taken much further by the primary co-operatives themselves combining to form a co-operative of co-operatives. This process is known as *federation*. A federation of primary co-operatives is called a secondary co-operative. A common example of a secondary is a co-operative district union.

37. Just as primary co-operatives can federate to form secondaries, these can, in turn, federate, and so on. At the top of the structure there is the apex co-operative which includes all the others in its membership. The size and shape of the pyramid-like structure thus established varies greatly from country to country, and can be simple or highly complicated. Where the primary co-operatives are small, they may form local unions, which, in turn, form district unions. Where the primary co-operatives are large, there may be only one union, which is both a secondary and an apex, for the whole country. The number of tiers in the pyramid can be as few as two (primary co-operatives federated into a national union) or as many as five or six (primary co-operatives – local unions – district unions – state or provincial unions – national union).

38. Federations may be of all co-operatives in a given area or may be confined to co-operatives of a particular type. The possible number of combinations involved in the federal structure of a co-operative movement is so large that it would be confusing to try to set it out. Each country has its own pattern, and the student should set it out as a diagram.

39. Like the primary co-operatives, the secondary and apex federations can be either single or multi-purpose. They are, however, more likely to be multi-purpose.

## **Control of federations**

40. Like a primary co-operative, a federation is owned and controlled by its members. In this case, however, the members are themselves co-operatives. They are, usually, represented at general meetings by

delegates. The principle of one member-one vote is, usually, adapted to give greater power to the larger members. This is perfectly fair, because the larger members represent more people. Sometimes the voting rights are based on the number of individuals which each member-co-operative has; sometimes some other formula, such as the amount of business done with the federation, is used. A management committee is elected either at the general meeting or by ballot. The federation is, therefore, controlled on a democratic basis, by the members. The co-operative principles of limited interest on capital and sharing surpluses according to patronage also apply. The functions of federations reflect the functions of the primary co-operatives which are in membership of them. The point in having a federation is to do things which cannot be done on the smaller scale of the primaries, or which can be done more effectively on a larger scale. For example, primary co-operatives involved in the marketing of cotton form a district union to undertake the ginning of cotton, which to be economic, needs to be done on a fairly large scale. Similarly, primary coffee co-operatives form a union to run a coffee factory. Supply co-operatives form a union in order to achieve bulk buying on an even larger scale than they can do individually. Credit co-operatives may form a union to borrow on even better terms, or to raise funds from the general public.

41. It is important that a union should be established only if there is a genuine advantage in doing so. It must be remembered that the union will add cost, which must be covered by greater savings. There is no point in establishing a marketing union if the primary co-operative can already reach the best possible markets direct. There is no point in forming a union of credit co-operatives if the terms on which it can borrow are no better than those which the primary co-operatives can obtain themselves. The additional costs in staff, etc., to run the union will simply add to the interest which has to be charged to the members. It is sometimes appropriate to have local or district unions but not unions at the national level. For example, in many countries, district marketing unions dispose of all the produce to a state marketing board and so have no need for a national marketing union. On the other hand, there are cases where there is a need for a national co-operative union, but not for local unions. For example, credit co-operatives may be able to borrow direct from national co-operative banks, without need for any intermediaries. There are, of course, many cases when unions are needed, but it is a mistake to set them up merely for the sake of doing so.

## **Co-operative banks**

42. A co-operative bank is a special kind of federation for the financing of the co-operative movement. It is owned and controlled, like any other co-operative federation, by the members. Its resources are derived from share capital, deposits from member-co-operatives and from their individual members and, frequently, by borrowing from commercial banks or the government. Co-operative banks are, usually, apex organisations at state or national level. However, in India for example, there are co-operative banks at district level as well. The policies of co-operative banks vary greatly from country to country. All of them will finance the short-term working capital needs of the co-operative movement, such as the holding of stocks of produce between purchase from the farmers and disposal to the market. Many co-operative banks finance productive loans to farmers, but, usually, because this business is risky, only with some kind of government support. Some co-operative banks also go in for long-term lending for a land purchase, buildings etc. In India, this type of business is done by a separate co-operative known as a Co-operative Land Development Bank.

## **Apex co-operative unions**

43. Whatever other federal structures may be set up, in almost all countries there will be a national apex co-operative union, whose principal responsibility is to represent the co-operative movement in dealing with government and the general public. Such an apex union may stand on its own, that is to say be single-purpose, or may be part of a larger organisation such as a wholesale, central marketing organisation or a national co-operative bank. In addition to representing the movement, the national apex organisation has such functions as promoting and advising the movement, education, publishing books and other written material, and the organisation of meetings. It may also take on such functions as audit and arbitration in disputes. Apex unions are usually financed by some kind of levy on the member-co-operatives, based either on their own membership or on trade.

## **Government administration of co-operatives**

44. In most developing countries, there is a Department of Co-operatives, headed by a Registrar of Co-operative Societies, or a

Commissioner for Co-operative Development, or some other such title. The Department may be in one of several possible Ministries — Agriculture, Labour, Community Development, Social Affairs or Commerce and Industry, or may have a Ministry of its own.

45. The powers and responsibilities of the Co-operative Department are derived from the co-operative law. We have already seen that in order to be legal entities, co-operatives must be registered under this law. Normally, the powers given to the Registrar of Co-operative Societies (or equivalent) by the law include the following:

- a. Registration or refusal of registration
- b. Liquidation
- c. Audit
- d. Inspection and enquiry
- e. Arbitration in disputes
- f. Intervention in management

The powers of the Registrar vary greatly from country to country, and are the subject of much controversy — especially where intervention in management is concerned. No one disputes that government must provide a legal framework for co-operatives and machinery to administer it, but there is much debate about the powers of government to actually control the co-operative movement. To explore the matter a little further, the powers listed above are discussed in the next few paragraphs.

## Registration

46. In most countries the law gives the Registrar the power to register or refuse to register a co-operative. Frequently the law says "*the Registrar may register a co-operative society, if he thinks fit*". This means that he has absolute discretion to decide whether a co-operative should be allowed to exist or not. Before accepting a co-operative for registration, the Registrar will, of course, have to satisfy himself that its objects, membership and by-laws are in accordance with the law and with co-operative principles. He would, for example, reject an application for registration if the by-laws provided that members could vote according to their share capital. So far, it is straightforward enough but, even if the proposed co-operative is within the law and in accordance with co-operative principles, the Registrar might still refuse

to register it. He might, for example, refuse on the ground that the proposed co-operative could never be financially successful. He might, also, refuse on the grounds that there was already a similar co-operative operating in the same area. Finally, he might refuse because he does not think that the members are yet capable of running the co-operative properly, or that they have not got a suitable manager or secretary.

47. There is usually the right of appeal to the Minister (or, sometimes to a court) against the refusal of the Registrar to register a co-operative. This right is, however, merely a safeguard against an unfair or arbitrary decision by the Registrar.

### **Liquidation**

48. Just as the Registrar has the power to register a co-operative, so has he the power to close it down. He may do so on any grounds. It may be that the co-operative is no longer operating in accordance with the law or co-operative principles. It may be that the number of members has fallen below the minimum. The most usual reason, however, is that the co-operative has gone bankrupt. When the Registrar decides to close down a co-operative, he makes an order putting it into liquidation, and appointing a liquidator. The liquidator takes over all the assets and liabilities and is responsible, under the law, for winding up the co-operative's affairs to the best advantage of all concerned, and with a special regard to the co-operative's creditors.

49. As with registration, there is, usually, provision in the law for appeal to the Minister or a court, against a decision of the Registrar to close down a co-operative.

### **Audit**

50. The Registrar is, under the law, given the responsibility of ensuring that the accounts of all co-operatives are audited regularly. He might carry out this responsibility through members of his own staff, or he might agree to the appointment of commercial auditors. In either case, it is the Registrar who is responsible and who must approve the accounts before they are presented to the members or published. This power protects the individual members, who may not, themselves, have the knowledge to ensure that the accounts are properly kept. In

addition, however, it gives power to the Registrar, because it gives him access to knowledge. From the audited accounts, he knows the state of health of the co-operatives, and knows whether to exercise any of the other powers which the law gives him.

### **Inspection and enquiry**

51. The law gives the Registrar powers to inspect a co-operative at any time. The committee and officials of the co-operative are required to produce any books of account or property of the co-operative which the Registrar, or his representative, may require to carry out the inspection. The Registrar, also, has the power to order a more formal enquiry into the affairs of a co-operative. Such an enquiry has powers not unlike those of a court – for example, to inspect all the records and to question witnesses.

### **Arbitration in disputes**

52. In most co-operative laws, disputes arising from the business of a co-operative, whether between the co-operative and one of its members, between one member and another, between the co-operative and its officials, or between one co-operative and another co-operative, cannot, under the law, be taken to a normal civil court. They must be referred to the Registrar, who can either try the matter himself, or appoint an arbitrator. The Registrar's decisions in these cases are final, and cannot be called into question in a civil court. Awards made are enforced as if they were judgements of a civil court. This provision of the law is beneficial to the co-operative movement in that it provides for cheap and speedy machinery to settle disputes, avoiding the expensive and time-consuming process of hiring lawyers and going to court. Lawyers are, usually, not allowed to take part in arbitration proceedings. It does at the same time give very considerable powers to the Registrar to take decisions in the overall interest of the co-operative movement.

### **Intervention in management**

53. A more recent, but very general trend, has been to put into the law powers for the Registrar actually to intervene in the management of co-operatives. Sometimes such powers may only be exercised if the

co-operative is in serious trouble. For example, if an enquiry has been held as described above, and the conclusion is that the co-operative is badly managed, the Registrar may dismiss the committee and appoint a manager of his own choosing. Normally, the manager may only be appointed for a limited time. The object is to rescue a co-operative which has got into trouble which might otherwise lead to its liquidation.

54. In some countries, the powers of intervention are taken further, and apply not merely to co-operatives which have got into difficulties, but to all the others as well. For example, the Registrar may be empowered to demand estimates of expenditure from every co-operative, and to forbid expenditure except within the estimates which he has approved. Cheques for more than a relatively small amount must be countersigned by the Registrar, or his representative. The Registrar may have the right to appoint some members of the committee or to appoint the manager. He may have the powers to order amalgamations or divisions.

### **Government control**

35. It will be seen that the government, through the Registrar, (who is a civil servant) has considerable powers over the co-operative movement, especially if the law provides for powers to intervene in management. Government control may go even further than that, even to the extent of making co-operative membership virtually compulsory, and of dictating co-operative policy. Much depends on how the government sees the role of the co-operative movement. If it sees co-operatives, primarily as a means to enable the people to help themselves in their own way, it will tend to keep them on a slack rein. If, on the other hand, it sees the co-operatives as an integral part of government policy, for example in establishing a marketing system or for agricultural development through credit, the control will tend to be greater. Above all, if there is a large amount of government money invested in the co-operative movement, government will usually demand overriding control. There comes a point where government control clashes with the principle of democratic control sufficient to cause debate whether what results is really a genuine co-operative movement at all. There is always a balance to be struck.

## **Co-operatives' role in development**

56. Most governments in the less developed countries, nowadays, give co-operatives an important role in their scheme of things. We have already discussed the most usual functions of the various types of co-operatives, but we must now look at how they can fit in with development policies.

## **Agriculture and employment**

57. Agriculture is frequently the largest sector of the economy, and therefore it is obvious that economic growth in most developing countries depends upon the expansion of agricultural output. At the same time, because of the rapid growth in population, it is necessary to keep as many people on the land as possible. Agricultural development policy must therefore be concerned with improving the performance of small farmers. Small farmers are almost always under-capitalised. Even if they understand the value of fertilizer and the like, they do not have the money to buy it. Some system of credit is therefore essential. The co-operative, if it is properly run, is the most efficient and least expensive of the possible systems of giving agricultural credit. At the same time, the co-operative can supply the inputs and market the produce. The co-operative also provides an organisation for agricultural education and extension. It will give loans for, and carry, stocks of those fertilizers and other in-puts which are recommended by the agricultural department. It will encourage the most advantageous crops, and ensure their proper preparation for market. Agricultural co-operatives therefore, whether they are multi-purpose or linked single-purpose provide valuable machinery for agricultural development. Joint-farming co-operatives and fully intergrated co-operatives are also likely to be sponsored by government with the objective of modernising agriculture and expanding production, while retaining population in rural areas.

## **Land reform**

58. Land reform may be undertaken for economic reasons, that is, to expand production, or for social and political reasons, or a combination of the two. Co-operatives are almost always involved in one way or another. In most land reform laws, membership of a co-operative is a

condition of being a beneficiary. The reason for this is that the old landlord, whatever other faults he may have had, did provide some services, such as credit and marketing, which have to be carried on after he has gone. Or, if the land reform has broken up very large estates, the small farmers who have received the land must be able to provide the services which the large estate was able to provide on its own. The gap can be filled by a multi-purpose credit, supply and marketing co-operative. Land reform can also lead to joint or co-operative farming of the former estates. In fact, the most successful examples of these are in relation to land reform. Since the peasants were not, formerly, their own masters, individualism is not so strong.

59. In land settlement schemes, co-operatives have much the same role as with land reform. Again, it is common to make membership of a co-operative a condition of becoming a settler.

### **Development projects in agriculture**

60. Comprehensive development projects are becoming more and more common. Many of them are financed by the international aid agencies such as the World Bank. A typical development project provides a comprehensive package including roads and communications, agricultural extension, credit, supply and marketing services. Sometimes, all the services and control are provided by the project. In-puts are supplied direct, on loan, from the project to the farmer. The project markets the crop and pays the balance to the farmer. Increasingly, however, it has come to be realised that this is an expensive way of doing things. Furthermore, there is often no provision for continuity after the project itself has come to an end, and the experts have gone home. Co-operatives are, therefore, being introduced into these projects in varying degrees and at varying times. In some cases, co-operatives emerge from farmers' committees, to handle the loans and undertake the primary stages of marketing. In others, co-operatives are there from the beginning, with specified functions. Sometimes, it is intended that the whole project shall eventually become a complex of co-operatives. If it is intended to have co-operatives in agricultural development projects, it is better to have them very early in the life of the project, even if, in the first place, they have to be given a lot of guidance. It is more difficult to introduce them later on, because the people have already become used to having things done for them, instead of doing them for themselves.

## **Rural employment**

61. Rural development, although usually its basis is agricultural expansion, must mean other things as well. There is a need to develop all kinds of services and non-agricultural jobs. The successful co-operative contributes to this. It not only creates demand for jobs in transport, packing, storage and processing, it generates the capital to finance it. Expanding farm incomes generate demand for supplies of agricultural requirements and of consumers' goods.

## **Fisheries**

62. A common objective of policy in fisheries is to expand output without displacing the small-scale fisherman. It follows that fisheries co-operatives have the same kind of functions as in agriculture, and it is not necessary to repeat them. Credit and supply are needed for boats, motors, nets, lines and so on. Marketing and, very important, storage facilities are needed. Joint and co-operative farms have their counterparts in co-operatively-owned fishing boats, the former in which the members keep their own catch, the latter in which the whole enterprise is co-operative.

## **Promotion of savings**

63. For both economic and social reasons, it is important to promote savings. Most co-operatives do so to a certain extent. Thrift and credit co-operatives, or credit unions, do so as their main business. They are especially successful among wage and salary earners, where regular savings routines, or even better, "pay-roll deduction" can be organised.

## **Housing**

64. The housing problems of big cities seem to be almost insoluble. Even in developed countries, such as Britain, there is still a serious shortage of good housing. In the great cities of the developing countries, such as Kingston, Lagos and Calcutta, the problem is overwhelming. No one has yet come up with an answer. Many governments have set up State Housing Corporations, financed from public funds, frequently supplemented with foreign aid, but these rarely have resources to do much more than scratch the surface.

Housing co-operatives are also being tried, and have had some limited success, but even they are dependent on the availability of resources which, ultimately, have to come from government, and which governments simply do not have. Meanwhile, research is continuing and various experiments are being made. One possibility is the provision of "sites and services", leaving the owner to build the house himself. This self-help building can well be organised on a co-operative basis.

### **Small-scale industries and handicrafts**

65. Because of the great problem of employment or under-employment, it is necessary to look for labour-intensive development. This brings up the question of small-scale industries and handicrafts. Co-operatives may be involved here in supply, credit and marketing, on principles similar to those in agriculture. Handicrafts are, in fact, frequently marketed by agricultural co-operatives as a side-line. In India and Bangladesh, there are large numbers of multi-purpose co-operatives for hand-loom weavers, which supply raw materials on credit, and which market the finished product. Alternatively, there can be industrial productive co-operatives made up of groups of carpenters, leather-workers, tailors, bricklayers and so on. The record is, to be honest, not a good one, but attempts to find solutions to the problems will continue to be made. It should be understood that while co-operatives can help people to organise, they cannot create markets which do not exist. If workers are already unemployed because there is no market for their trade, establishing a co-operative will not solve their problems. If, on the other hand, the market does exist, but individual workers cannot reach it because their trade is too small and they are inexperienced, a co-operative can be of value.

### **Growth of enterprises**

66. In a sense, economic development boils down to the establishment and growth of a multitude of enterprises, small and large, public and private. Some small ones grow big. Henry Ford began by repairing farm wagons. It is less important what these enterprises do, than that they prosper, generate capital, diversify and expand. Co-operatives are a type of enterprise, along with one man businesses, partnerships, private and public companies, and public corporations. The growth and expansion of co-operatives, therefore, is of value in itself, irrespective of what

particular line they are in. Co-operatives are enterprises which relatively unsophisticated people can be trained to run. They are especially suited for establishment by the rural population. It does not matter so much what they do, as long as they do it successfully. Obviously, where they are in agricultural communities, the business will be connected with agriculture, but that is, in a sense, of secondary importance.

### **Social Development**

67. Finally, co-operatives are important for social development. From their history as well as from their nature, co-operatives have a social as well as an economic purpose. The very process of establishing and running a co-operative is character-building and educational. The proceedings at meetings are educational. The co-operative might well provide social services: a recreation room for members, radio or television receivers, a library, a crèche, a radio transmitter or a telephone to consult medical advice or call an ambulance. Moreover, a co-operative, by virtue of its relationship with its members, provides an almost unique medium for social and adult education, in such fields as home economics, maternity and child welfare, health education and so on. The possibility of using co-operatives in connection with family planning education is now being seriously considered. It must be repeated, once again, that co-operatives can only succeed in their social purpose if they are, first and foremost, successful economic enterprises.

### **Problems**

68. We have seen what co-operatives are, how they are organised, and what they can do. It would, however, paint a very false picture, without a discussion of some of the problems likely to be encountered. Co-operatives do not, by any means, always work as well as the theory implies. They are not a kind of magic. There have been very many co-operative failures. It is important to understand the reasons for failures, not in order to show that co-operatives do not work (because, in the right conditions, they do), but so that we can anticipate the problems, and so be prepared to deal with them.

### **Inappropriate government policies**

69. Firstly, it is necessary to dispose of a class of failures which are not the fault of co-operatives themselves. Much of the criticism of

co-operatives which one hears, is concerned with this class, and should, more properly, be directed at governments. What happens is that governments, in a great hurry for economic or political success, bring about the establishment of large numbers of so-called co-operatives to carry out what are, usually, half-baked policies. Membership of such "co-operatives" is either compulsory or brought about by a kind of official bribery. In the former, the people are simply mustered by order, into a co-operative farm or marketing organisation. In the latter, they are enticed into membership by the promises of government hand-outs. It is hardly surprising that these spurious co-operatives mostly collapsed, with great damage to the co-operative movement as a whole. Loans were never recovered, no more were issued, and there was endless recrimination.

70. The moral is that co-operatives must only be encouraged after the people have been prepared and educated. They must enter into membership willingly and with good understanding of what they are expected to do.

### **Unsound agricultural economics**

71. To justify itself, an agricultural loan must generate an *increase* in the value of production greater than the loan. There are many cases where this does not happen. Sometimes, methods and in-puts which obtained increased yields under the artificial conditions of government experimental farms, are over-hastily "sold" to farmers who cannot get the same results under field conditions. As a consequence, the farmers are saddled with debts, without the increased income to repay them. In other cases, the increased yields are obtained, but the market collapses, with the same consequence. Many marketing co-operatives have failed because they were expected to do the impossible. A co-operative can organise marketing, can sometimes find new markets, but cannot create markets which do not exist.

72. Before encouraging the establishment of a co-operative, it must be reasonably certain that what it is intending to do makes good economic sense, and is to the economic advantage of its members.

### **Shortage of capital**

73. The fact that a group of persons forming a co-operative creates the economic demand for capital items, does not necessarily mean that

they have the resources to provide them themselves. A group of farmers forming a co-operative may produce enough to justify having their own lorry, but still may not have sufficient funds to buy one. It is far too readily assumed that co-operatives can be self-financing from the start. Large numbers of co-operatives have died from a kind of economic anaemia. Lacking the capital for basic services, they have failed to provide the services expected, and have lost the support of the members as a consequence. The capital needed may be either to provide physical assets such as transport and storage, or to sustain the co-operative during its first difficult years. In the first few years the co-operative does not generate sufficient income to pay a competent manager: without a competent manager it cannot get beyond the first stage. It is trapped in a vicious circle.

74. While it is true that co-operatives must be economically self-sufficient, this does not mean that they have to raise all their own capital from their own members' resources. There is nothing discreditable about borrowing, provided it is done on a sound commercial basis. Co-operatives should not be established, unless they can be provided with adequate capital resources to operate effectively.

### **Education and training**

75. A common cause of failure is, simply, that the people do not understand what they are doing. The ordinary members know little or nothing about the way the co-operative is supposed to work, or about their own rights and responsibilities. The committees are unable to supervise the work of employees. The secretaries cannot check the books properly. Nobody knows how to make the orders for requirements, how to run a store, or how to fix prices. Even the simplest village co-operatives calls for a measure of managerial skill. The more complex businesses of secondary and apex co-operatives call for more sophisticated management. It is hardly an exaggeration to say that management is almost always deficient – not necessarily to the degree of being fatal, but at least to the extent that it causes the standards of performance to be below what they should be.

76. Co-operatives cannot be expected to succeed, unless there is a comprehensive programme of education and training, before the co-operative is started, and continuing for a long time afterwards.

## **Dishonesty**

77. Dishonesty is a danger in almost all human organisations. The fact has to be faced, however, that, in some circumstances, co-operatives are particularly susceptible to it. The members are uneducated, often illiterate. Unless the members fully understand the importance of the co-operative to them, or unless they are cheated personally, they are not too concerned with what goes on with the co-operative's money and property. Unfortunately, too often, co-operation does not mean "unity is strength", but "what belongs to everybody, belongs to nobody". Comparatively large sums of money are handled by people whose own income is relatively small. There is a great temptation for goods and money to disappear into private pockets, especially where there is little risk of being found out. Even where there are suspicions, it is difficult to prove them. Widespread, but small-scale pilfering and embezzlement are relatively easy to cover up, especially when the books are not properly kept.

It is futile for co-operators to deny that this problem of dishonesty and corruption exists on a wide scale. Many co-operatives have been destroyed by it, and the reputation of the movement in many countries has been seriously damaged. It is far better to face the fact, and to take the necessary action to prevent dishonesty.

## **Domination by the few**

78. Another weakness, commonly quoted by critics of the co-operative movement, is that co-operatives are prone to be dominated by a few wealthy or influential people, who direct the affairs of the co-operative in their own interest, rather than in the interest of the membership as a whole. For example, loans from government credit institutions are given to a few prominent members, leaving the mass of members with nothing. If the co-operative is operating agricultural machinery, it is the well-to-do who get their land ploughed first. If fertilizer is in short supply, it is the rich who get it, while the poorer go without. And so on.

This criticism of co-operatives is, probably, exaggerated, but it has to be admitted that it is, sometimes, true.

## **Inadequate supervision**

79. Many of the weaknesses of co-operatives come about because of inadequate supervision. Supervision is essential, at least, until the

membership and management are fully educated and trained. Ideally, the co-operative movement should provide its own supervision, partly from the elected committees, and partly from the apex organisation, which should provide audit, inspection and guidance services. In practice, in most countries, the committees are not sufficiently knowledgeable, and the apexes are weak. The apexes are, in fact, part of the system themselves, and liable to the same problems. They have no legal backing for their actions. They are almost always under-financed. Responsibility, therefore, falls back on the government co-operative departments. Almost without exception, these have had inadequate staff and funds, and this has been the main cause of co-operative failures. Governments have allowed, even encouraged, co-operatives to spring up in large numbers, but have failed to provide adequate supervision. There are countries where the audit work has been four or even more years behind. Marketing co-operatives handle very large sums of money in a single season, without as much as a financial inspection. It is hardly surprising that there have been widespread losses.

## Conclusion

80. The last few paragraphs may make depressing reading, but it is essential to set them out frankly. They should not, however, be interpreted as a fatal criticism of co-operatives in practice. There are plenty of examples to show that co-operatives can be made to work, provided a few basic points are observed:

- (i) Appropriate policy objectives
- (ii) Sound economic principles
- (iii) Sufficient capital
- (iv) Proper education and training
- (v) Competent and adequate supervision

Above all, co-operatives must remain true to the principles upon which they are based. These are not some kind of "holy writ", but are based on practical and proved successful experience. If they are followed, and if the basic points quoted above are observed, the co-operative movement has very much to offer in the development of the poorer people of the world.