COOPERATIVES IN AGRICULTURE AND ITS IMPLICATIONS
IN LESS DEVELOPED COUNTRIES

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ABSTRACT
Cooperatives have a universal appeal as an instrument of economic, social and cultural development, yet their record has been less than exemplary. This paper highlights dilemmas faced in cooperative development in the less developed countries (LDCs). By examining the evidence with regard to agricultural credit cooperatives, it argues that in the absence of various internal and external pre-requisites, alternative forms of institutional arrangements may be as, or more effective than credit cooperatives. In any case a healthy movement which reaches the masses calls for institutional competition Agrawal, 1994.

INTRODUCTION
Traditionally, cooperatives have been expected to serve a broad set of socio-political and economic objectives ranging from self-help and grass-root participation to welfare and distribution, including economies of scale and social control over resource allocation and mobilization. However, these various objectives are not mutually consistent. Because there is a substantial trade-off in the realization of many of these, it is necessary to weigh their relative importance in the needs and priorities of the individual country at any given point of time if performance of cooperatives is to be evaluated in an appropriate context. An attempt to fulfill a range of these conflicting objectives simultaneously has led to broad based disenchantment with the cooperative movement.

This paper highlights two sets of issues with respect to cooperative development. First, it discusses the concept of cooperation and illustrates that the contradictions in the ideology and practice are more significant in explaining the limitations of cooperatives to serve as an instrument of agricultural development. Second, the paper points out that in the absence of various external and internal prerequisites and especially due to the lack of their recognition, cooperatives tend to be inefficient relative to other forms of traditional institutions even after receiving subsidies and other types of assistance, thus neither achieving efficiency nor development. By analyzing the area of agricultural credit, in which the cooperative movement has traditionally been most active, this paper illustrates various dilemmas and contradictions, and the preconditions necessary for credit cooperatives to reach the rural poor effectively. Finally, the paper points out the implications of the past experience for the future role of cooperatives.

MATERIALS AND METHODS
Cooperatives play an important role in the economic development of Pakistan. According to agricultural census of Pakistan (1998) about 88% of the total farmers possessed less than five (5) acres of land. On the other hand 12% of the farmers are large farmers owing more than five acres of land. In such a situation the small farmers and tenants could move forward only through cooperatives because they are financially very poor and thus, could not carry out many and complex farming activities.

The present article is based on theoretical development and secondary data solicited from different published and unpublished sources. For this research article discussions were held with the registrar co-operative banks, head of different co-operative societies like co-operative society of sugar cane growers in Mardan, co-operative milk marketing in Faisalabad and co-operative movement of cotton growers in the Punjab. The co-operative farming systems in all the divisions were personally observed and about 20 Farm managers were asked different questions. These visits were made during 2007 at peak season because farmers were expected to have fresh knowledge. Moreover, discussions with knowledgeable people, personal observations and expertise were also taken into account. Therefore, this research article is based mainly on secondary information and did not require any sophisticated statistical techniques for analysis.

RESULTS AND DISCUSSION
In order to support the case with the help of secondary data which is given below in table-I, an example is quoted from the Forest co-operatives.

From the data above it is clear that as for as the earning by the labour is concerned, it is obvious that since the middle man is eliminated, the profits going to him are now available to the labour itself, may be by pay of higher wages or bonus they got at the end of the financial transactions in addition to the better amenities they get in their working conditions.

Conceptual Fallacy
The cooperative movement of the 19th century

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appeared as a spontaneous response to the sudden changes in living conditions in both rural areas and urban centres associated with the industrial revolution. Several different conceptions have emerged in the process of evolution of cooperative thinking. For analytical purposes, they can be broadly placed in two major categories: the pragmatic and the idealistic. In the first category may be placed the conception that the primary aim of cooperatives is to help improve the economic condition of those who stand to lose if they individually face powerful interests and privileged competitors. Thus, cooperation is not an instrument to transform capitalist system and replace it by some contrasting alternative. Instead, its distinctive institutional form is designed to mitigate inequalities and harshness of capitalistic system altering the distribution of its benefits in the process of making it more workable. The idealistic ideologists however, conceived of cooperatives as an instrument to effect the transformation of the capitalist system. They held that cooperatives were fundamentally non-capitalistic and could co-exist with capitalism only at the risk of becoming capitalistic themselves (David Kelsey 1955).

The pragmatists perceive cooperatives as entirely voluntary organizations formulated with a view to deriving economic benefits for its members through a common enterprise on the basis of two important criteria: mutual cooperation and self-help. According to this concept, benefits arising from undertaking a cooperative enterprise are to be distributed in proportion to the contributions of individual members, without in any way aiming to bring about equity in income distribution through cooperative organizations. Exponents of these view countries are frequently expected to cope with far too many constraints, and this is one of the main reasons why cooperatives are often ineffective in benefiting their members? If this is a correct assessment, under what circumstances should one discard cooperative organizations and explore alternative forms of institutions? (GTZ 1995).

The broader concept of cooperation, on the other hand, acknowledge the inter-action between economic and socio-political power and therefore, recognizes the frequent need either for structural change or for political mobilization for cooperatives to be able to benefit their members, especially the poor. According to the broader view even with such change or innovation, but particularly in the absence of either, paternalism and external assistance in the form of leadership, management and finances are inevitable as a step towards more voluntary and self-reliant cooperatives in the long run. The performance of cooperatives is viewed in the context of these various considerations (Jan, 1993)

**Cooperatives Experience: a Comparative Perspective**

Some of the successful stories and experiences of cooperatives societies in Asian countries with examples from other countries of the world are analyzed in this article for future implications. India has basically an agrarian economy with 72% of its total population residing in rural areas. The rural people need lot of services in daily life which are met by village co-operative societies. The seeds of co-operation in India were sown in 1904 when the 1st co-operative societies act was passed. 2nd since than, the co-operative movement has made significant progress. Co-operative have extended across the entire country and there are currently an estimated 230 million members nationwide. The co-operative credit system of India has the largest network in the world and co-operatives have advanced more credit in the Indian agricultural sector than commercial banks. The village co-operative societies provide strategic inputs for the agricultural sector, consumer societies. Nirod & Kumar (2006).

The general experience with the working of cooperatives in many countries of the world has been a matter of much disappointment to members of societies, government and other promotional agencies. Generalization is very difficult over many countries, each with its own history and peculiar socio-economic conditions. Nevertheless, evidence derived from numerous case studies reveals a common pattern of poor performance as assessed by reference to the cooperatives own proclaimed goals.

It may be noted that a great majority of cooperatives in Asia, Africa, Latin America and elsewhere in the world have been initiated generally by governments, adapted either on the Rochdalean model or Raiffeisen principles and principally concerned with the provision of consumers goods and services, marketing farm produce and allocating credit. Very often this policy has been disappointing with a larger proportion of cooperatives becoming inactive.

The most consistently recorded criticism of cooperatives has been their falling into control by the wealthier and more politically powerful members of rural areas. Most studies reporting domination of cooperatives by a wealthy elite judge it to be undesirable. Usually this conclusion depends on the attribution of failure to achieve cooperation to the alienation of the majority of Cooperators. Few studies
have investigated the economic effect of such domination of members. It seems likely that while in some cases such domination leads to exploitation in others cooperative leaders in pursuing their own economic interest make available management skills which benefit the remaining members Cook, 1995.

Nevertheless, there has been general tendency of cooperatives to benefit the poorer groups least. This phenomenon can in fact be traced back to the origins of the modern cooperative movements. In his centenary history of British cooperation G.D.H Cole pointed out:

"The cooperators never succeeded in reaching down to the lower levels of working-class income, and their success would have been much more limited than it actually was had there not been a substantial rise in wages for the main body of the industrial workers after the middle of the nineteenth century".

In other words, the early cooperatives in Britain did not benefit the lower levels of working class until general development first took place and brought about improvement in the conditions of income and employment of the poor. There is a parallel situation regarding cooperatives in many developing countries where the masses of the very poor, who have yet to participate significantly in development, fail to benefit from the cooperatives. Amer, 2004.

G. Myrdal has posed the dilemma of cooperation in Asia: "Unfortunately, the notion that cooperation will have an equalizing effect is bound to turn out to be an illusion. While land reform and tenancy legislation are at least in their intent, devices for producing fundamental alterations in property rights and economic obligations, the "Cooperative" approach fails to incorporate a frontal attack on the existing in egalitarian power structure. Indeed, it aims at improving conditions without disturbing that structure and represents, in fact, an evasion of the equality issue. If, as is ordinarily the case, only the higher strata in the village can avail themselves of the advantages offered by government subsidies given for their development – the net effect is to create more, not less, inequality. This will hold true even when the announced purpose is to aid the disadvantaged strata".

Examples of disproportionate benefits from cooperatives going to the better-off people have been reported in many countries. A study undertaken in Iran established that only the better-off farmers had obtained loans and fertilizers from their cooperatives. It was reported from Pakistan that the cooperatives had reinforced the position of patriarchal village authorities who dominated them and controlled the allocation of government provided funds. In Latin America the impact of rural cooperatives appeared to have been weakest at the point of greatest heed: the lower income small farmer. Similarly local influential dominated rural cooperatives in most of the African cooperatives. In Uganda, for example, control of cooperative communities by village elites was frequently reported and the ability to take advantage of services offered by rural cooperatives depended on the extent of existing control of land, equipment and other resources.

Cooperatives undertake many activities, but of all, credit is one which has come to be regarded as an essential function. In most of the developing countries, credit is usually necessary for farmers, especially low income farmers, to attempt innovations that can lead to increased productivity. Many studies report that insufficient credit is generally available to farmers when channeled through the cooperatives. On the other hand, the official incharge of credit programmes claimed that loan repayments were inadequate to justify credit provision. The entire issue of agricultural credit as a means of agricultural production is nevertheless a thorny problem, obviously far from solution, when judged from the findings of many studies. Edmons, 2002.

Despite the provision of substantial amounts of credit through cooperatives by governments in many countries this has nevertheless been insufficient to serve the credit needs of farmers for both agricultural production and development. Various studies on the other hand criticized provision for allowing available credit to be diverted to non-productive consumption.

Conspicuous examples of the unproductive use of cooperative credit have often been reported by studies undertaken in many parts of the world. It was reported that the impact of the loans advanced by credit societies on agricultural productivity was almost negligible in Pakistan as nearly two thirds of the funds were used for marriage ceremonies, building new houses etc. In Iran substantial loans advanced by societies went into consumption channels and dependence on the money – lenders did not significantly decreases. In Western Africa the levels of loan repayment were generally low, primarily due to diversion of loans to consumption purposes and even the pressures for collection of loan causes negative reactions to government – sponsored agricultural development programmes in general.
Examples of productive use of credit have nevertheless been reported. In Ceylon (Sri Lanka) and Comilla (Bangladesh) credit provided by cooperatives was used primarily for adopting innovations or for other production purposes. The Comilla credit programme was particularly effective. Individual members of local societies deposited savings and bought shares in the central association. With this as security the central association then provided credit to the local cooperatives. Each member’s request for a loan was scrutinized by the cooperative management committee and then approved by the central association. The local cooperative exerted group pressures on individual members for repayment, without which the cooperative would have lost the right to further loans Banerjee, 2004.

Evidence of the effectiveness of this system is the fact that, in contrast to most other areas, the loans were nearly all used for productive purposes. This was a result of close supervision by the local cooperatives and by the central association. In addition, the recovery rates of loans advanced to members was extremely high, sometime even 100 percent. There were two pragmatic reasons for that: commission on loans received was offered to managers as inducements, and defaulting members were expelled. The assistance granted by the governments to the societies in the form of finance has nevertheless badly effected the performance of many credit societies. Cases have occurred where in the first flush of enthusiasm to help the cooperatives; public funds have been made too easily available at cheap rates. The history of cooperatives in several countries bears witness to the disastrous effect of such a policy. Limitations on the willingness of government to secure adequate staff for the promotion of credit cooperatives have often been cited as one main obstacle to progress. True understanding of cooperative methods and of credit cannot be fostered on an adequate scale unless enough staff of the right skills is secured. Attempts by small staffs to obtain quick growth of credit cooperatives have often led to failures, particularly where there are not enough educated, public spirited rural residents to act voluntarily as leading foundation members of societies. Moreover, the characters as well as the special training of staff are highly important. The staff should have a strong and sympathetic interest in the problems of the families with whom it deals. It must therefore usually have the same social background, adaptability and sense of service. Evidence proves that contrary to these required characteristics, most staff members in societies have been illiterate, came from urban backgrounds and lacked in general a sense of sympathy for the problems of rural folk Cardenas, 2003.

A most important difficulty which cooperatives have confronted in many developing countries is opposition to them from landlords, traders and money-lenders. However, correction of this difficulty frequently depends on the introduction of changes in basic land tenure arrangements and on the development of better marketing, including in suitable circumstances, the promotion of purchasing and marketing cooperatives. These cooperatives are difficult to establish unless supported by cooperative whole – sale societies, for otherwise private traders are averse to dealing with them. The limited success of credit cooperatives has often been attributed to the fact that the need to consider the overall indebtedness of their members was overlooked. A high level of borrowing from informal sources frequently continued at high rates of interests and these informal lenders were able to secure priority for the prompt repayment of their loans at harvest time to the detriment of the societies. Although small local societies generally restricted themselves to short term loans, they had often made large loans for the repayment of old debt. The need to think carefully in terms of repayment plans for individual members was not adequately realized by the management. Most committee members abused their positions by securing large amounts of cooperative loans which they did not repay later and not only became loan defaulters themselves, but became unable to control other defaulters Fehrand Gachter, 2000.

Cooperatives as a vehicle for reforming social structure have had an insignificant impact in most rural communities of developing countries. Evidence shows that instead of reforming cooperatives reinforced the existing social structure. The argument that cooperatives reinforce the social structure rather than reform it has led Fals Borda and others to suggest that by reinforcing the social structure, cooperative policy has in general had the undesirable effect of delaying alternative institutional changes. Such a result is, however, contrary to the general aim of cooperation. The objective usually reflects a local wish to change the social structure by enabling active participation by the majority of people in an institution suited to modern economic activities. The way in which mass participation has been replaced by elite domination has led many to suggest that cooperatives are only appropriate when combined with other socialist policies designed to reduce the power of rural elites. So far the account has focused on the failures of cooperatives, in particular the credit
societies, and the underlying reasons. The case of a few Sinhalese and Comilla cooperatives has been an exception. Although the extent of failure has been reflected in the weight of recent literature, successes have also been recorded Bardhan, 2000.

In general terms the successes of cooperatives reported in some countries were that they instilled a new spirit of hope, thrift and mutual help into the minds of their members. The members of cooperative credit societies were saved from the burden of interest charges and in some cases entirely freed from debt. Owing to the reduction of the rates charged by money-lenders in localities served by cooperative credit societies, non members were enabled to obtain loans at reduced rates. Other good results have included promotion of savings in areas where no other institutions, apart from cooperatives have existed. The pre-requisite for success might be anticipated to be the correction of factors which ordinarily are expected to result in cooperative failures. However, in individual cases, success has been reported to be due to the willingness to relax the formal rules of cooperative procedures were simplified to allow full participation by illiterates. Government actively encouraged participation and discouraged domination by elites, by establishing direct contact with ordinary villagers through a policy of animation. Other cooperatives proved successful after the introduction of intensive supervision and provision of comprehensive development services.

The stage of development has also been shown to be crucial to the success of cooperatives. In Taiwan, for instance successful adoption of cooperatives followed commercialization of the rural economy. It has been argued that at less commercialized stages of development simple forms less remote from traditional institutions are more likely to achieve economic benefits through cooperation. Nevertheless, there has been little systematic experimentation with alternative forms Andreoni, 2003.

CONCLUSION

Despite differences in the stages of development, evidence from Asia, Africa and Latin America indicates that the limitations of cooperatives in reaching the rural poor especially the peasants arise from a rather consistent set of factors. This means that principles of cooperative development have to be equally consistent across the developing world, although the relative importance of individual factors would depend on the specific circumstances of individual countries. For instance the principle of differential unit cost of providing services to the poor in comparison with the rich applies universally. The greater the disparities in the distribution of income and wealth, the greater are the differences in costs. The extent to which cooperatives can benefit the peasants, without a redistribution of assets, would depend on the extent to which these greater costs are met by direct subsidies for this purpose, assuming that political forces do not come in the way of reaching the rural poor particularly the peasants.

The cost of reaching the peasants can be minimized only to the extent that the resources directed to the programmes for them are used effectively and increase their farm productivity. Further, the effectiveness of the resource use depends on the various internal and external factors that affect the performance of cooperatives. Cooperatives are frequently based on an inadequate knowledge both of actual constraints faced by the peasants and of the steps needed to alleviate these constraints. As a result there is rarely a critical examination as to whether cooperatives are the most appropriate institutions to tackle these constraints and, if so, the pre-requisites necessary for their success. Leadership, management, experience and technical know-how—all of which are crucial for cooperative organizations to be effective receive relatively little emphasis in cooperative development, in comparison with a rather amorphous and mis-directed concept of existing grass-root – organizations and of their potential for promoting participation and democracy.

There is often inadequate appreciation of the external factors which have a profound impact on the extent to which institutions – whether in the private, public or the cooperative sector – can function effectively, particularly in reaching the peasants. These include government policies with regard to agricultural pricing, input distribution, technology, infrastructure development and regulatory functions. The lack of pre-requisites in these various areas is combined with inadequate understanding of the way emphasis on decentralization and grass-root participation can defeat the equity objective by vesting power in the hands of rural political elite. The greater the inequalities, the greater are the conflicts. In such situations it would appear that a more centralized, paternalistic approach may be more effective than traditional cooperatives, provided that it is more sharply focused on identifying the internal and the external constraints of the type listed earlier. In following this approach, the emphasis would have to be on small groups, relatively simple forms of cooperative activities and particularly on substantial training of the peasants to actually carry out planning and implementation of programmes, with the necessary external support to make these programmes
effectively. Currently private-public partnership is very successful in solving agriculture problems of farmers on self-help basis. For instance NGOs, CBOs and VOs are working very successfully in Pakistan under devolution plan.

Table I: Cooperatives for Marketing of Timber Products

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<tr>
<td>No. of contracts executed</td>
<td>309</td>
<td>319</td>
<td>392</td>
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<tr>
<td>Contract price</td>
<td>36,71,550</td>
<td>63,13,342</td>
<td>95,01,759</td>
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<td>Sales effected</td>
<td>1,27,09,006</td>
<td>1,62,57,732</td>
<td>1,62,21,598</td>
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<td>Profit earned</td>
<td>32,57,196</td>
<td>36,59,039</td>
<td>13,59,749</td>
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<tr>
<td>Amount spent on welfare works</td>
<td>1,05,779</td>
<td>1,22,691</td>
<td>2,74,995</td>
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<td>Bonus paid</td>
<td>56,515</td>
<td>98,055</td>
<td>88,685</td>
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Source: Forest Labour societies during 1955–58 (India)

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