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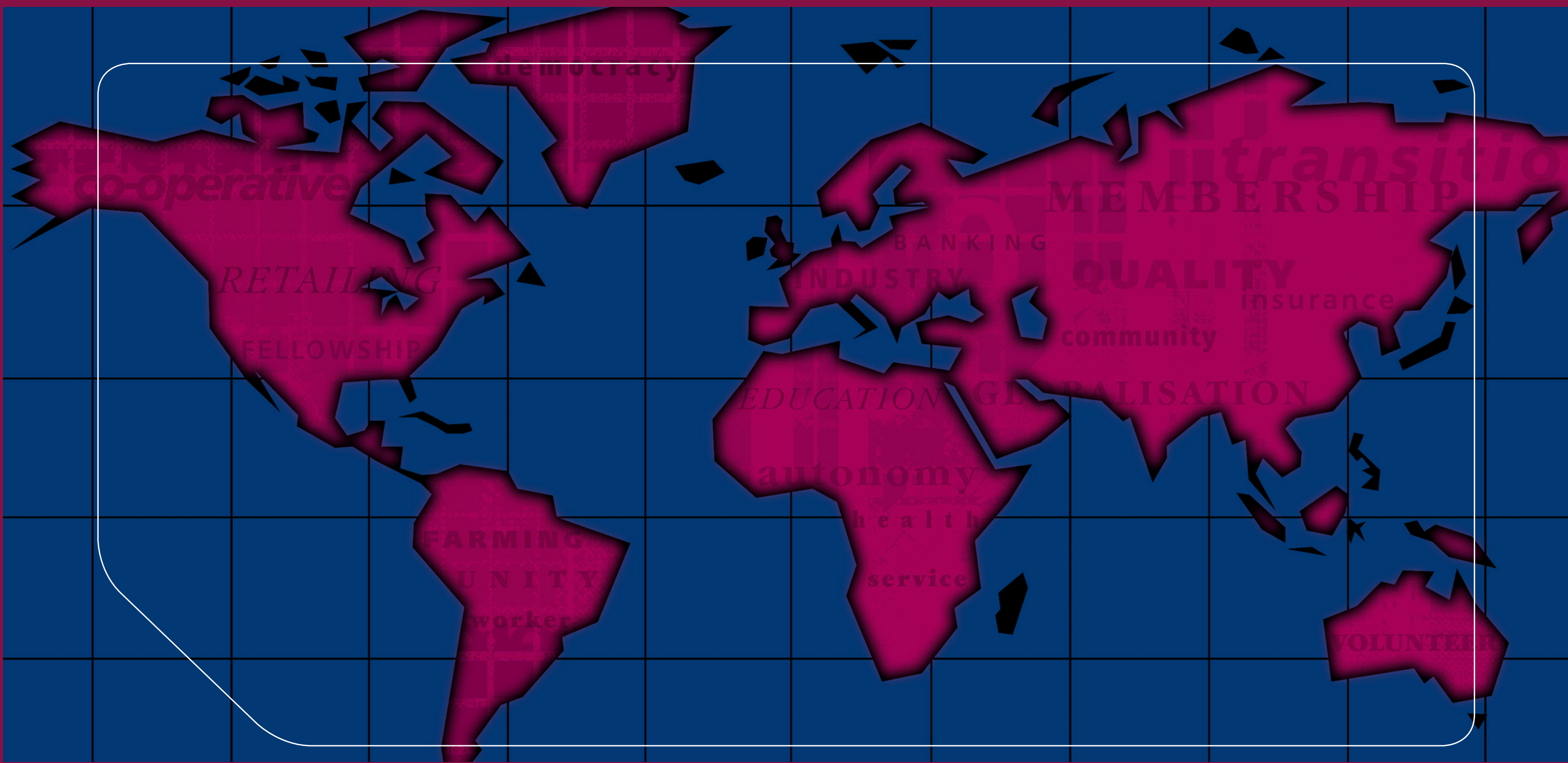

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Address for correspondence (for submission of manuscripts, see inside back cover)
Dr Peter Davis,
Unit for Membership Based Organisations,
School of Management,
Ken Edwards Building,
University of Leicester,
University Road,
Leicester, LE1 7RH.
United Kingdom.

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Notes on the contributors

Navin Anand, Dr
Chief Programme Manager
IFAD Supported Integrated Support Livelihood Project
Government of Uttarakhand
216, Panditwari, Phase II, Dehradun[Uttarakhand]
Uttarakhand, India.
Email naveen@gmail.com; cpm@ugvs.org

G. S. Ananth, Professor
Department of Agricultural Economics, University of Agricultural Sciences,
Bengaluru-560 065, Karnataka,
India.
Email gsanath@uasbagalore.edu.ind

P. S. Dhananjaya Swarmy
PhD Scholar
Department of Agricultural Economics, University of Agricultural Sciences,
Bengaluru-560 065, Karnataka,
India.
Email dhananjayaps284@gmail.com

***Getachew Gobbena*,**
Lecturer,
Dept of Co-operatives,
Ambo University,
Ambo, Ethiopia
Email getachew.gobena@yahoo.com

Esther N Gicheru, Professor
Director,
Institute of Co-operative Development
Co-operative University College of Kenya
P-O. Box 24811
Ushirika Road
Karen, Nairobi, KENYA
Email esthergicheru@gmail.com
Corresponding author

Gemma Fajardo-García
Doctor of Law
Lecturer
Social and Co-operative Economy Research Institute (*Instituto de Investigación en Economía Social y Cooperativa*)
University of Valencia
Av. De Basro Ibanez, 13,46010,
Valencia, Spain
Email fajardo@uv.es

O. Klimi-Kaminari
Assistant Professor
Panteion University of Athens
Leof. Andrea Siggrou 136,
Kallithea, Greece
Email kaminari@otenet.gr

Daniel K. Kinyuira, Dr
Lecturer
Department of Entrepreneurship and Procurement,
Jomo Kenyatta University of Agriculture and Technology,
P.O Box, 789-10200 Muranga, Kenya.
Email kinyuiradk@gmail.com

Kirianki M'Imanyara
Deputy Director
Institute of Co-operative Development
Co-operative University College of Kenya
P-O. Box 24811
Ushirika Road
Karen, Nairobi, Kenya.
Email mkirianki@cuck.ac.ke

Mrs. A. Menakadevi
Assistant Professor,
Department of Co-operation,
Vellalar College for Women (Autonomous),
Thindal, Erode,
Tamil Nadu 638012
India
Email C/O vcwprinicipal@rediffmail,com
Corresponding author

***N. N. Nadoni*,**
PhD Scholar
Department of Agricultural Economics, University of Agricultural Sciences,
Bengaluru-560 065, Karnataka,
India.
Email vic4301@gmail.com

***S.Nakkiran*,**
Prof of Co-operative Management,
Department of Co-operatives
Ambo University,
Ambo,
Ethiopia
Email doctorsnakkiran@gmail.com
Corresponding author

C.L. Papageorgiou
Professor Emeritus
Department of Agricultural Economics
Agricultural University of Athens
75, lera Odos
11855 Athens, Greece
Email clpapageorgiou@gmail.com
Corresponding author

Francisco Soler-Tormo Dr (Econ)
Lecturer
Social and Co-operative Economy Research Institute (*Instituto de Investigación en Economía Social y Cooperativa)*
University of Valencia,
Av. De Basro Ibanez, 13,46010,
Valencia, Spain
Email Francisco.Soler@uv.es

M. Sagar
PhD Scholar
Department of Agricultural Economics, University of Agricultural Sciences,
Bengaluru-560 065, Karnataka,
India.
Email sagarmandya@gmail.com

Mrs. B.S. Vanetha
Assistant Professor,
Department of Co-operation,
Vellalar College for Women (Autonomous),
Thindal, Erode,
Tamil Nadu 638012
India

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For applications or further enquiries please contact:

Dr Peter Davis, Chartered FCIPD, AHEA, Director
Unit for Membership Based Organisations
50 Tower Street, Leicester, LE1 6WT

Website: www.le.ac.uk/ulsm/umbo

Tel: +44 (0) 116 252 5517
E-mail: pd8@leicester.ac.uk

An intervention in the discussion of the ICA Draft Guidance Notes on the Co-operative Principles

Peter Davis

May I first congratulate those responsible for these Draft Guidance notes on the implementation of the ICA principles. There is much that is useful in this detailed document. However in one respect the notes regrettably reinforce and perpetuate a fundamental flaw in the idea of co-operative governance that the principles themselves should in my opinion have addressed directly with a principle defining the concept of Co-operative Management.

I first raised this issue in a presentation to the International Association of Co-operative Bankers in Manchester in 1995 chaired by the then CEO of the UK Co-operative Bank Terry Thomas. This presentation coincided with the ICA Manchester General Assembly adopting with almost universal acclaim the work of the committee chaired by the late Prof Ian McPherson. The Director General of the ICA at this time, Bruce Thordarson, referred to me as one of the 'few dissenting voices'. I argued then and continue to argue that it is a mistake to operate co-operatives on the 'civil service' principle that the elected board make policy and management merely implements it. The division of power being that day to day management is management's prerogative but overarching policy and direction of the co-operative is the elected Boards is a myth. Regrettably this myth is dangerous and has led to a management culture that keeps boards and the 'social' side separate from the 'business' - the latter run day to day by management. It should be clear that a co-operative business must have a co-operative management culture where the professional leadership is committed to co-operative purpose, values and governance. Such a governance division between policy and application and between social and commercial encourages a management culture that at best feels constrained by its co-operative context and at worst is actually hostile to it. Secondly, and equally obvious to anyone who cares to explore the issue, it's the management in all medium and large co-operatives that is in fact the focus and driver for policy.

The movement needs to recognise and reflect this reality by defining the co-operative role and responsibilities of a *'Co-operative Manager'* as a key principle that all managers of co-operatives need to accept and incorporate as a key job descriptor against which their performance, no matter what specific business or commercial activity the co-operative is engaged in, can be evaluated. Unfortunately in two key paragraphs in the Draft Guidance Notes which I quote below the myth is perpetuated.

> *3.18 elected members should take care to distinguish the governance responsibility of elected members and officers and the day-to-day business management responsibility of chief executives and senior managers. Elected members ought not to interfere with the day-to-day responsibility of executives to manage a co-operative business efficiently and put member approved business strategies into effect. Equally chief executives and senior managers ought to respect the rights of members democratically to control their co-operative and take key business decisions. Many a sound co-operative business has encountered difficulties and courted failure because this key differentiation of the complementary roles of elected boards and senior executives has not been mutually respected.*

Senior executives

> *3.39 A clear distinction needs to be made between the democratic rights and responsibilities of the elected board of a co-operative and its focus on the long term enterprise strategy and professional senior management, accountable to the board, entrusted with day to day management. Senior executives need to demonstrate their practical commitment to and respect for the principle of member democratic control by the way in which they support and service their co-operative's business decision making. Key strategic policy decisions need to be explained to members clearly, concisely and in a way that the whole membership can understand, with alternative options given where appropriate.*

However some acknowledgement of the reality does almost breakthrough in paragraph 3.40 concerning the presentation of financial and business information to boards and members.

3.40...........Senior executives, whether they are a member of the board or not, have a duty to advise boards about what they consider to be the most appropriate business decisions and actions to take but should not simply expect elected members to rubber stamp the decisions they recommend. There needs to be mutual respect for the two distinct roles of the strategic governance responsibility of the board and the day to day business management responsibilities of senior executives.

Chief Executives should be members of the Board precisely because it is they not the lay board who will take the lead in formulating policy and implementation strategies. The CEO has in practice the central role in defining both Vision and Mission and in determining the organisational culture of the Co-operative. Thus there is no justification whatsoever for the CEO to be able to escape legal responsibility for their actions by not being a full board member.

However there is a more positive case for the CEO to be a board member. One of the challenges co-operatives in all spheres face is to be able to compete effectively in the global economy. The co-operative difference must be woven into the vision, mission and business strategy of the co-operative to bring this unique difference to life, providing a real competitive advantage (See Davis, 1999 and 2004). I have argued in my books (op cit) that modern management methods can be effectively adapted and utilized, once a clear value framework and co-operative purpose has been defined, *more* effectively than in capital based companies.

We must insist that the *defacto* leadership role of the CEO is formally recognised for the co-operative as a whole. This will not be possible unless the movement adopts a clear definition of that responsibility. The safest place is as a *Principle of Co-operative Management*. At the time of the adoption of the principles I suggested the following additional principle.

"Co-operative Management

Co-operative management is conducted by men and women responsible for the stewardship of the co-operative community, values and assets. They provide leadership and policy development options for the co-operative association based upon professional training and co-operative vocation and service. Co-operative management is that part of the co-operative community professionally engaged to support the whole co-operative membership in the achievement of the co-operative purpose." (Davis, 1995, p16)

Of course this does assume an agreed co-operative purpose that fits all forms of co-operative business. Without such an agreed purpose and value set we can hardly talk of a co-operative movement as such. In a previous paper, Davis (1994) I tried to address the unifying threads that unit all types of co-operative and must influence the definition of their purpose, management and organisational development agendas in the context of a global economy. If we are to combat managerialism and the subversion of co-operative purpose and achieve that illusive aspiration 'co-operation between co-operatives' we must get beyond the idea of co-operatives as operating in separate sets of business defined silos whose only thing in common is a shared ownership model and shared operating and governance principles *to a statement of common purpose*. Let me reiterate the points in the 1994 paper concerning the common purpose of all co-operatives. First there is the achievement of *market leverage* whether to protect the incomes of the small producer, the individual employee or consumer. It's possibly with this in mind that the late Will Watkins (a former Director and historian of the ICA) insisted (Watkins, W. P. 1986, p17) that for a co-operative the principle of unity was more important than democracy.

Unity is always stronger where economic goals are integrated with social and cultural values and objectives. That co-operatives fail to develop sufficiently their membership's cultural and human capital formation is without doubt one important factor explaining their underperformance in the economic system. This social and cultural value set is central for any business strategy that both differentiates the co-operative model in the marketplace and cements the practical organisational and associational unity and member loyalty that Watkins recognised makes for economic success. Alongside the need for unity and leverage in the market Co-operatives also have an equally important purpose of establishing an alternative society based on solidarity in community rooted in such values as distributive and natural justice and the common good and a life style that puts individual well-being and relationships based on respect for the dignity of the individual at its heart. These two dimensions economic solidarity and cultural solidarity can only be fully effective when they are integrated into the specific co-operative's business strategy and policies. For this to be possible the values and the vision must first be lived in the co-operatives management and organisational culture. This requires the full commitment of the Co-operatives CEO.

In papers, chapters and books following the 1995 ICA Manchester Conference; Davis (1997a and 1997b), Davis and Donaldson (1998) Davis (1999, reprinted in Spanish, Russian, and in 2011 achieving a 2nd imprint in Indonesian), Davis (2001) and Davis (2004) I have developed the idea of co-operative management as both a profession and vocation arguing that the servant leadership framework is the most appropriate for implementing this principle in practice. I have updated the 1994 analysis of the concept of *Co-operative Management* in a paper in 2012 given at a Co-operative Conference in Moncton (Davis, 2012) in recognition of the growing global environmental, economic, technological and political threat to the cause of co-operation. The urgency and imminence of these threats seems to me to be obvious and calls for additional qualities to those of the servant leader although this concept remains in my view central to any definition of a co-operative manager. The early co-operative agenda addressed not only ownership of the economy but also questions of character formation and life style as the final ends of a co-operative commonwealth. The emphasis on character formation remains as critically relevant today as part of the wider critique of the capitalist ideal of economic rationality and consumer society.

The contemporary threats of climate change, resource and species depletion, environmental degradation and the technological and political solutions capitalism has already commenced putting into place requires from the co-operative movement *a courageous, prophetic and transformational leadership and followership with the additional professional skills to mount a sophisticated response to the challenges of our times*. A more transformational leadership across the co-operative world is essential to snap us out of the complacency and celebratory self-congratulation that the movement as a whole so likes to indulge in. Only a properly trained and developed co-operative value based executive management can provide the required quality of leadership to rise to the challenges of our times and enable the co-operative movement to reach its true potentiality**.** But this is not a matter simply of education and training but a question of identifying people with the attitudes, predisposition and vocation to fulfil such a role.

We are at a point where a focus on governance must be replaced by a focus on leadership. I would like to remind the ICA that the British movement conducted an exercise not dissimilar to this ICA governance initiative, publishing its findings and adopting policies and programmes for improved co-operative governance in the mid 1990s. A report was published by the Co-operative Union Ltd, (1994) *Report of the Corporate Governance Working Group* Chaired by Prof Brian Harvey which resulted in the Co-operative Union publishing in the following year the *Co-operative Union Ltd (1995) Corporate Governance. Code of Best Practise*. The British movement rejected the idea of having CEOs as full board members and instead re-emphasised the idea of the separation of powers as we find in the current draft document. Senior officials in the Co-operative Union at the time particularly John Butler put in enormous energy and commitment to promoting better governance on this model. Let me pay tribute to that effort and the integrity with which it was implemented.

The British Co-operative Union went on to produce follow–up training and special governance newsletters. However the initiative failed and by 2001 following a major Co-operative retailer having collapsed, and this not the first by any means in the UK, a *Co-operative Commission* was initiated and reported amide a huge PR effort that totally ignored the reality in the British consumer movement at the time. (See: Davis and Donaldson, 2000). The Davis and Donaldson work remains the biggest and most comprehensive survey of the British consumer co-operative movement in the post war period to date and one that was conducted with the support and guidance of Co-operative Union Officials and the sponsorship of the *UK Society for Co-operative Studies*. The survey returns demonstrated the failure of the British Consumer Co-operative Movement to invest seriously in its co-operative values and identity either for the purpose of recruitment, selection or for the development of its senior and middle managers.

Since then the British movement has confronted probably the biggest governance and due diligence failure in its history resulting in a massive sell off of businesses and other assets and the loss of control of its bank. The British Consumer Co-operative movement lost millions whilst the executives responsible for these failures and some of the consultants who advised them walked away unscathed with huge fees or severance payments. (Davis, 2014) The lay board had been totally inadequate for the task whilst the executive management clearly had no sympathy or allegiance to co-operative governance and values and no understanding whatsoever of co-operative vision or mission.

The British Co-operative Movements failures have as we know been duplicated elsewhere and will be again if the movement refuses to define co-operative management and refuses to develop psychometric testing and other selection tools to help identify candidates with the right attitudes and values to work within this definition. The Co-operative Movements governance will always be problematic until it invests in co-operative value based management education and development. A co-operative value based CEO engaged as a full member of the board will recognise as a key strategic objective the involvement of the board and will want to engage with, listen to and mobilise the employees and the whole membership into an integrated co-operative culture and social capital resource driving forward the co-operatives competitive advantage in the realisation of its business plan and the fulfilment of the co-operative purpose, mission and vision.

Thus I propose the following changes to the Draft under Principle 2 to amend the following paragraphs to read thus;

3.18 Whilst elected members should not directly intervene in areas where line management is concerned with the day to day running of their co-operative they are entitled to raise any matters of concern brought to their attention by any member of the co-operatives stakeholders. Should these matters concern employment or member relations complaints or disputes with suppliers they should only be raised at Board level if the internal relationship management processes have been exhausted without a satisfactory outcome to the parties. All elected members should take care to distinguish the governance responsibility of elected members and officers and the day-to-day business management responsibility of chief executives and senior managers. Elected members ought not to interfere with the day-to-day responsibility of executives to manage a co-operative business efficiently and put member approved business strategies into effect. Equally chief executives and senior managers will report regularly to boards on key performance indicators covering all aspects of the co-operatives day to day activities with the aim of engaging and involving all the co-operative stakeholders; members, customers, suppliers and employees and the wider community in the evolution and application of policy utilising the best market research methodologies. The co-operative has an obligation to approach, listen and inform stakeholders with reference to past heritage, present context and co-operative responsibilities towards future generations. Executive management and the board as a whole must listen to all stakeholder opinion and understand and responded to it at board level in appropriate areas of policy and strategic implementation of policy. The results of such research should be public, accept in areas of commercial sensitivity, and reported to the whole board for discussion and action.

A key co-operative stakeholder is past and future generations (Terry Thomas, 1997, p18) and all boards need to recognise their responsibility to the sacrifices and struggles of past generations of co-operators and to the co-operative future that it is their responsibility to help to build.

Senior executives

3.39. (i) Co-operative executive management is conducted by men and women responsible for the stewardship of the co-operative community, values, heritage, assets and purpose. They provide leadership and policy development options for the co-operative association based upon professional training and co-operative vocation and service. The co-operatives chief executive officer will sit as a full board member with functional heads also being co-opted in larger societies. Co-operative executive and line management is that part of the co-operative community professionally engaged to support the whole co-operative membership and community of stakeholders in the achievement of the co-operative purpose. The common purpose of all co-operatives being the establishment of just economic relationships based upon democratic ownership of the economy aiming at supporting human social and individual development in the context of a sustainable environment and resource utilization that respects the dignity of the individual, the common good and concern for all life on earth and its habitat.

3.39. (ii) It is a clear responsibility of appointed and elected board members of a co-operative to ensure there is a relevant vision, mission and policy in place with appropriate implementation strategies focused on the middle to long term establishment of co-operative purpose and objectives. Co-operative socio – economic and human centred purpose requires a unified programme integrating co-operative values and purpose responding to the evolving environmental challenges and commercial realities. The professional senior management will take the lead in establishing the data and making recommendations in collaboration with elected *board members to ensure a strong co-operative culture permeates all the co-operatives activities and relationship management processes. In the interests of unity the ideal is to obtain consensus decisions at board level but where this is not possible no decision can be implemented that does not involve a clear majority of elected members voting in favour. Senior executives and line managers have a fundamental professional responsibility to present data that is accessible and transparent to elected board members and to the membership as a whole. Regular stakeholder consultation and reporting utilizing the best market research tools will be a regular feature of all co-operative governance processes.*

For paragraph 3.40 simply delete the final sentence as unnecessary given the previous paragraphs. Of course all this remains merely words without the investment in the development of proper co-operative recruitment strategies and selection methodologies, including the development of psychometric tests designed to assist in the selection of men and women with the right character, attitudes and values to meet our aspirations for what a co-operative manager should be. The movement needs to act on its principle of education by investing in senior management development programmes that reflect the co-operative rather than the standard MBA agenda. (Davis, 2006) Where such programmes exist, such as the MMCCU programme in the Sobey School of Business at Saint Mary's University, Halifax, NS, Canada, the movement needs to support them financially with candidates and to actively engage with their course development processes. We need more such programmes covering various languages and groups to meet the pressing need for professional co-operative management capable of leadership and committed to the pursuit of the co-operative values, purpose, mission, and vision.

Peter Davis

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Influence of the Co-operative Business Model on the Sustainable Performance of Co-operative Enterprises

Daniel K. Kinyuira

Abstract

Business models are a better predictor of performance than industry classifications and indeed some business models lead to better performance than others do. One such a model is the co-operative business model that drives co-operatives to sustainable performance and better response to economic crises than investor owned models. This paper provide insights on the structure of co-operative business model, particularly how the Co-operative organizational purpose, key resources and key business processes influence enterprise performance. It outlines views on the co-operative business model and its sustainability from a model elements perspective. The literature reviewed demonstrates that co-operative model elements contribute to sustainable performance of co-operative enterprises. However, to continue the debate and in consistent with the perception that co-operative business model elements result to resilient firm performance, this paper recommends future research on the effects of interrelationships of model elements on firm performance, where the influence of combinations rather than characteristics of single elements is established. A hypothetical framework of model elements is also explained.

Key Words

Co-operative Business Model, Performance, Sustainability.

Introduction

Background

A co-operative is a business organization jointly owned and democratically controlled by the members, who use its services and are willing to accept the responsibilities of membership. (Makori et al., 2013; ICA, 2012c; Wanyama et al., 2009). This implies that a co-operative is a means of organizing activity, not the activity itself, where working together and mutual benefit are the core objectives (Bwisa, 2010). The definition also informs that a co-operative is different from other forms of organizations in that its members directly own it, run the organization, make decisions democratically and use capital for mutual benefit (Muthuma, 2011; Bwisa, 2010). Mazzarol et al. (2011a) and Birchall (2010) in addition assert that the co-operative model of business creates a context for a closer strategic fit between the organizational design and members' needs, which make it resilient. Lazarevic (2011) and ICA (2012a, b, c) acknowledge the distinctive nature of the co-operative business model by observing that unlike the investor owned firms, co-operatives are able to create a synergetic innovation by linking social association to profit centred enterprise.

Accordingly, co-operatives are strong functional businesses whose unique owner-control feature strengthen their performance sustainability (Desrochers and Fischer, 2005) by relying upon the common purpose and loyalty of their membership when faced with external threats and economic pressures (Nunez et al., 2004; Mazzarol et al., 2009). This is particularly because co-operatives involve members in the governance and access resource inputs through members in away that is not possible for investor owned firms. Nunez et al. (2004), hence conlude that a co-operative business is sustainable and can be " a valid alternative to current instability and economic concentration" (p.1149). Equally important, the nature of the co-operative as a supplier or buyer owned enterprise engenders greater trust in the supply chain than might otherwise be the case for an investor owned firm (Ole-Borgen, 2001). Overall, the studies reviewed agree that the distinctive nature of the co-operative business model make co-operative enterprise more resilient (Jussila, Byrne, and Tuominen, 2012). Complementing this opinion, Weill et al. (2005) in a research where they analyzed performance of the top 1000 firms in the US economy in the year 2000 found that business models are a better predictor of performance than industry classifications and indeed some business models lead to more sustainable performance than others do.

From inception, co-operatives have also grown in scale and scope, Birchall (2010) and today they are

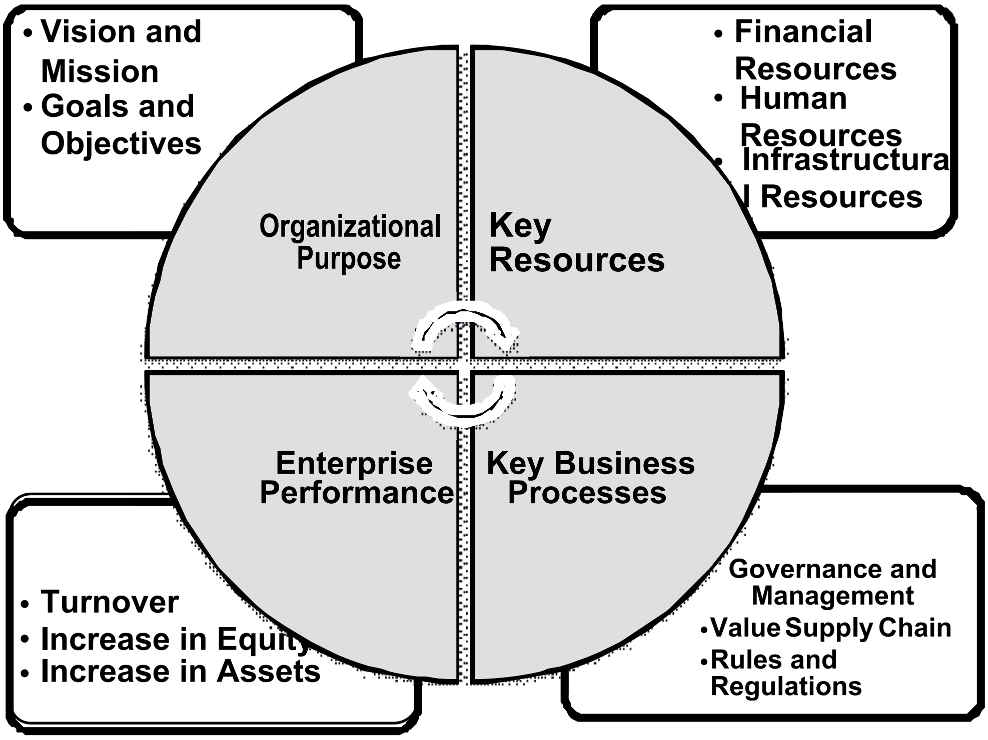

Figure 2.1 Key Elements of the Co-operative Business Model (Adopted from Mazzarol et al., 2011b; Morris et al., 2013 and Johnson et al., 2008)

worldwide, cut across all sectors of the economy and it is claimed can provide an important framework for mobilizing resources (Nyakenyanya, 2013; ICA, 2012a). This, it is claimed, enables co-operatives to play an important role of welfare maximizing and socio-economic development (Okello, 2012; Wanyama et al., 2009; Novkovic, 2008). Statistics indicate that, globally co-operatives generate a turnover of over US$1.6 trillion per year, 13.8% of the world's populations are members of co-operatives; over 3 billion people secure their livelihood through co-operatives and over 100 million people are employed in co-operatives which is 20% more than in Investor owned enterprises (Mayo, 2012; Salvatori, 2012; Atherton, et al., 2012, ICA, 2012b). In addition, the co-operative presence in almost all countries is significant; for instance, in New Zealand, 22% of GDP comes from co-operatives, while in Japan, 91% of all farmers are members of co-operatives (Jussila et al., 2012). In Kenya, co-operatives are responsible for 45% of the GDP, 31% of the national savings and control over 85% of the coffee, dairy, pyrethrum and cotton market (Muthuma, 2011; ICA, 2012a, 2012b). These statistics suggest they are the only alternative ownership mode that operates in the context of a free market based voluntarism that could transform the contemporary economic model whose operation is the principle cause for the environmental pollution, resource depletion and social polarisation that threatens to overwhelm us.

The significant presence and sustainable performance compared to their competitors is facilitated by the co-operative business models ability to successfully mobilize fragmented energies and resources that would have gone to waste Nyakenyanya (2013) and Salvatori (2012). They also provide comparative advantages such as high penetration and stable interest rates (Birchall and Ketilson, 2009). This creates capacity for response that is renewed every time a new crisis emerges as evidenced by co-operative performance in the 2008-2011 global economic crises. For instance, by the end of year 2012, following five years of financial turbulence, co-operatives were showing more stability and positive response to the crises than Investor owned enterprises (Odhiambo, 2013; Stiglitz, 2009; Sabatini, Modena and Tortia, 2012). In the period, credit co-operatives continued lending, and in the production co-operatives, reduction in sales did not translate to job cuts (Ferri, 2012). The resilience and sustainable performance was replicated everywhere in the world, for example, in the UK, between 2008 and 2011 co-operatives had a survival rate of 98% compared to 65% of the investor owned enterprises. Similarly, in the same period, the UK co-operative economy grew by 6% compared to -0.65% growth of the overall national economy (Mayo, 2012).

In Kenya, SACCOs are a segment of the co-operative movement that is vibrant and responsible for 30% of the GDP and 33% of national savings deposits (WOCCU, 2013). They have been growing at an average of 15% annually (Tirimba, 2013) and survived the 2008-2011 economic crises better than investor-owned firms. The resilience and sustainable performance is attributed to the co-operative business model (Borzaga and Galera, 2012; Ferri, 2012; Stiglitz, 2009).

The co-operative business model has been instrumental to the sustainable growth in co-operatives because it creates economic and social sustainability (ICA, 2012 a, b, c; Jusila et al., 2012). As a conceptual construct, the co-operative model refers to the strategic mapping of organizational purpose, key resources and key processes and performance (Mazzarol et al., 2011a)). Thus, studies by Cortimiglia, Ghezzi and Renga (2011), Wheelen et al. (2008; 2009a, b), Zott and Amit (2011) and Jussila et al. (2012) indicate that the co-operative model is a potential source of competitive advantage because it links the firm's structure and strategy into a competitive system. The above views strengthens the theoretical arguments that co-operative model elements contribute to the sustainable performance of co-operative enterprises. To continue the debate, this paper offers insights on the structure of the co-operative business model, particularly how the organizational purpose, key resources and key business resources influence enterprise performances.

Business Model

This sub-section reviews the literature related to the business model and its influence on enterprise performance. It provides an overview of the business model concept, the business model for co-operative enterprises and the effects of model elements relationships. A business model is a system of inter-connected and mutually dependent elements consisting of: an organization's purpose of existence; required key resources; linking processes (or a means for eliciting action, exerting control and effecting co-ordination); and ultimate goals e.g. performance (Laegaard and Bindslev, 2006; Daft, 2000; Zhao and Zhang, 2013). A business model, therefore, is the strategic design of how organizational components can meet customer needs in the best way (Seddon et al., 2004). In this case, according to Mazzarol et al. (2011a, b) and Shafer et al. (2005), a good business model is the one that defines how the enterprise creates, captures and delivers value for its shareholders. As a result, business model components are the ideal concepts of analyzing firm performance, as this ensures no important factors are overlooked (Amit and Zott, 2001, 2007).

In a similar perspective, Weill et al. (2005) found that business models are a better predictor of performance than industry classifications and indeed some business models perform better than others do. Supporting, these findings, Nunez-Nickel and Moyano-Fuentes (2004) posit that as a business model, the co-operative is a valid enterprise form that is stable to external threats and economic downturns. It is also more resilient than their investor owned counterparts because of its ability to maintain the support of its members (Mazzarol, 2009). Discussing the business model concept, Johnson et al. (2008:50) indicate that "great business models can reshape industries and drive spectacular growth" and by systematically identifying all the business model constituent elements a firm can understand how the model fulfils the organizational purpose in a profitable way using certain key resources and key processes. The four elements namely: organizational purpose, key resources, key processes and enterprise performance are the building blocks of any business operations whose power lies in their interdependencies (Mazzarol et al., 2011b).

Equally, to perform well, Johnson et al. (2008) advise that a business should devise a stable system in which the elements bond to one another in consistent and complementary ways. This is because changes in any of the four elements affect the others and the whole. As an extension to the business model theory, Mazzarol et al. (2011b) configure the key elements into a co-operative business model depicted on figure 1, and conclude that the four elements and their definitions can provide a conceptual structure of a business model for co-operative enterprises.

Organization Purpose and Firm Performance

Purpose as the destiny or reason of existence of an entity is expressed through a mission, vision, goal and objectives. In co-operatives, these three strategic statements of purpose are developed based mainly on the co-operative principles and values (Atherton et al., 2012; Mellor, 2009); whose adherence distinguishes co-operatives from other organizations (Bwisa, 2010).

Vision and Mission

A vision of a co-operative states its desired future (Sotunde, 2012) and reflects co-operative values that inspire commitment to maximize performance

(Johnson et al., 2011). Supporting this perception, Senge (2006),Fritz(2011) and Porter (2004) discern that strategic visions motivate creativity and innovativeness on how to leverage resources in order to drive an organization towards desired performance. A Mission of a co-operative on the other hand should state the overriding and unique purpose that differentiates the organization from others (Wheelen et al., 2008) by indicating the intention to serve exclusively owner-members. In particular, mission of a co-operative as one of the strategic statements of intent (Bennett, 1999) should identify the target market; clarify the scope of product/services offering, competencies, market segment and geographical area of operation (Mazzarol, 2009; Teece, 2010). Other studies indicate that a mission declares an organization's commitment to meet stakeholders' needs (Darbi, 2012; Kotler et al., 2009; Khan at el., 2010; Carpenter et al., 2010; 2012), and is the ultimate reason of being in business (Denison, 2009). In addition, Bart et al. (2001), clarifies that a mission statement also provides a basis for allocating resources, setting up procedures and evaluating the success of activities. Therefore, a mission is useful for practical day-to-day operations and impacts on strategy and most other aspects of enterprise performance (Porter, 2004; 2008).

Goals and Objectives

A goal is the aim of an action or task that a person consciously desires to achieve or obtain (PSU, 2012; Locke and Latham, 2006; 2002). Further, goals are general intentions to accomplish a mission, while objectives are the measurable and time bound targets of the general goal (Johnson et al., 2011; Khan et al., 2010). The objectives of a co-operative combines elements from the vision, mission and members expectations to create specific performance targets. Also, since a co-operative is a means of organizing activity, where working together and mutual benefit are the core objectives not profit maximization (Bwisa, 2010), goals and objectives of co-operatives are evaluated on the basis of member benefits delivery.

Moreover, given that a co-operative can be viewed as a coalition of members with different interests (Mazzarol, 2012), its goals can be broad. Such goals may affect performance through four mechanisms, namely: increasing attention to a goal, energizing pursuit of a goal, task persistence and the ability to effectively strategize to reach a goal (Locke and Latham, 2002). For instance, in a co-operative where one of the goals is to promote the interest of its members in accordance with the co-operative principles, such as goal can influence performance by directing attention and effort toward goal-relevant activities and away from goal-irrelevant activities. In addition, such a broad goal can have an energizing function (PSU, 2012) that may lead to greater effort. Likewise, considering a co-operative is a means of organizing activity where working together is crucial, goals and objectives motivate persistence to ensure the co-operative effort succeeds. Significantly, the goals of a co-operative may affect action indirectly by leading to the arousal, discovery, and/or use of task-relevant knowledge and strategies by members for success of the co-operative activities. (PSU, 2012) This reportedly occurs in agricultural co-operatives where members guided by the goals and objective seek innovative strategies to improve production.

Firm Resources and Firm Performance

Resources are stocks of available factors of production owned or controlled by a firm (Penrose, 1995). Accordingly, resources of a co-operative are concerned with the ability to fund its purpose of providing affordable products and services for the mutual benefit. Mazzarol et al. (2011b), in their conceptual paper, explain that co-operatives own and control resources endowed in their membership that subsequently facilitate working together, members' service delivery as well as mutual benefit. Further, resource-based view explain resources of business firms to include physical resources, financial resources, information technology and human resources (Johnson et al., 2011; Abu Bakar and Ahmad, 2010; Inmyxai and Takahashi, 2010).

Financial Resources

Financial resources of a co-operative are the cash, cash equivalent assets, credit to members and debtor non-members. For this reason, financial resources are concerned with the ability of a business to fund its chosen strategy (Riley, 2012) or what Barney (1991, p.3) refers to as "enable the firm to conceive and implement strategies". Typically, existing funds of a co-operative comprise of cash balances, loans, shareholders' capital, working capital (e.g. stocks, debtors) and creditors (Mazzarol et al., 2011b). On the financial resources-performance link, Churchill and Lewis (1983) found that financial resources enable a firm to have extensive and well-developed systems that boost entrepreneurial spirit which in turn facilitate continuous innovation and creativity. In agreement with Riley (2012), Inmyxai and Takahashi (2010) found that financing activities are positively associated with performance and firms without adequate financial resources are unlikely achieve superior performance. On service delivery, Nyakenyanya (2013), Odhiambo (2013) and Okello (2012) assert that financially stable SACCOs provide better loan product and services as well as affordable inputs and better dividend rates.

Notably, since the Rochdale Society of 1844, co-operatives raise finance mainly through a combination of share capital from members, defined by ownership rights and the retained earnings from operations (Mazzarol et al., 2011b). In a paper on co-operatives, *Akinwumui (2006) contends that co-operative financing is the most practical tool to adopt for meeting the needs of a co-operative enterprise. This is because* co-operative financing can significantly affect sustainable performance of enterprises (Onaolapo and Oladejo, 2011), through the mobilization of resources that would have gone to waste (Salvatori, 2012). In the light of the above, Oladejo (2013) suggest that co-operative financing potential should be advocated in more organizations because it creates synergy.

Human Resources

A co-operative being a means of organizing activity, and accumulating a stock of knowledge, skills and abilities individuals possess (Inmyxai and Takahashi, 2010; Penrose, 1995) it is important to ensure members work together for mutual benefit. This is why, the productive services provided by employees and members in the form of expertise and decision-making capability (Riley, 2012), are regarded as assets critical for organizational performance (Namusonge, 1998). Various other studies have found that human resource capabilities result in efficiency and effectiveness of organizational activities, which in turn lead to better enterprise performance (Abu Bakar and Ahmad, 2010; Inmyxai and Takahashi, 2010). Churchill and Lewis (1983), in their study found that sufficient employee skills, experience and capacity to meet the needs of the chosen strategy impacts positively on firm performance. Correspondingly, Inmyxai and Takahashi (2010) in their study found that in addition to numbers, depth and quality, human resource characteristics, such as the education, training and work experience also has an impact on firm performance. In Kenya, Vision 2030 recognizes human resources as critical to the performance and international competitiveness of firms, by “contributing not only to efficiency gains in existing activities but also in diversifying economic activities (RoK 2007, p.21). Therefore, this clearly shows that human resource capabilities affect performance of firms including co-operatives.

Infrastructural Resources

Infrastructural resources comprise of basic facilities, services and installations needed for the functioning and include physical assets such as land, buildings, equipment, and information technology. Physical resources are concerned with the physical capability to achieve the organizational purpose (Makori et al., 2013; Riley, 2012). They house and facilitate members’ services and value adding operations that result to revenues (Mazzarol et al., 2011b) and their exploitation impact firm performance (Barney, 1991) by permitting low-cost operations through the economies of scale (Porter, 1985; Kotler and Keller, 2009). Therefore, Leblebici (2012) concludes that there exists a strong indirect relationship between organization performance and physical resources.

On Information technology, resource-based theory literature reviewed indicate that IT are complementary resources that enhance the influence of organizational purpose as well as from resources on firm performance (Ravichandran and Lertwongsatien, 2005). That is why in co-operatives, technology is a driver of business success just like in other enterprises (RoK, 2007). To compliment this, Porter (1985) adds that any firm can gain a low cost advantage through automation of processes and tasks. Similarly, other studies have found that IT can enhance process efficiency and product/ service quality(Ravichandran and Lertwongsatien, 2005).In Kenya, The Vision 2030 (RoK, 2007, p.19) advise organizations including co-operatives to use IT resources in integrating innovative ideas into products, processes and services in order to boost performance and competitiveness. The Vision explains that IT investment “create a strong base for enhanced efficiency, sustained growth and promotion of value added in goods and services”. In support to this argument, The Second Annual Progress Report 2008-2012 (RoK, 2011, p.35) states that “effective and full exploitation of the opportunities availed by IT resources can translate into high and sustainable growth as well as competitiveness”.

Key Business Processes and Firm Performance

Business processes refer to the linking systems or means for eliciting action, exerting control and effecting coordination necessary to mobilize resources for the achievement of organizational purpose (Mazzarol et al., 2011b). Typically, Key business processes may comprise of governance and management practices, value supply chain as well as rules and regulations that enable organizations to perform well at an increasing scale (Johnson et al., 2008).

Governance and Management Practices

The governance of a co-operative is one of the most important aspects that influence its success or failure as a business model (Mazzarol, 2009). Characteristically, the co-operative business model different from investor owned business models, because co-operatives are member owned and controlled enterprises. This fundamental characteristic has a unique economic and political dimension to that of private and public enterprises (Hettiarachchi, 2013). On the economic dimension, members use the products and services, while on the political dimension, members, participate in the governance of the co-operative, for instance, by electing board members and attending general meetings.

In their paper, Mazzarol et al. (2011b) suggest that a co-operative governance system comprise of member participation, co-operative governance and the operational management aspects which interact to influence performance. Member participation links up to the aspect of corporate governance to constitute the 'active voice of members' namely: the general meeting, the Board and the supervisory committee (Cracogna, 2002). In the operational managementaspect, the board through employees steer the coperative consitent with members expectations. In this context, Cornforth (2004) affirm that the role of members as owners who then elect the Co-operative board of directors and make resolutions ingeneral meetings has significant impacts on the overall governance of the enterprise. Most prominently, the Co-operative member owned-control characteristic is a competitive advantage whose extent and nature determines success of a Co-operative(Mazzarol, 2009). This is because the Co-operative principles and values on which the Co-operative governance emanates create involving structures, processes and practices that give members sense of ownership, belonging, accomplishment, and control as well the ability to satisfy personal ideas (Hettiarachchi, 2013; Simmons and Birchall, 2009). The owner-control aspect also keeps the governance costs low and minimizes risk of business failure since members as suppliers "are often willing to share profits and losses in order to maintain the long term sustainability of the co-operative"(Mazzarol et al., 2012, p. 7,).

Moreover, co-operative governance positively impact on performance by the board ensuring that the management practices adopted by employees are within the confines of the co-operative principles and values (Hettiarachchi, 2013). In his study,Palmer (2002) who examined marketing co-operatives in the UK tourism sector found thatthe quality of co-operative governance and the strength of member commitment influenced organisational performance.This was because participatory governance make members identify with the strategic purpose of the co-operative and to view the co-operative as benefitial to them (Ole-Borgen, 2001).

The Value Supply Chain

A co-operative can be viewed as a coalition of members with different interests (Mazzarol 2012) that provide a hub for organising particular local economic interests or for protecting common pool resources (Birchall, 2010). Therefore, the nature of co-operatives as economic associations dipict a network of members and can be viewed as supply chains (Mazzarol, 2009) either as producers who sell into or buyers who purchase from. In this manner, as supply chains, Co-operatives provide flexibility, a strong sense of common purpose amongst members, good coordination as well as good communication; which allow faster cycle times at a lower cost and encourage innovation through the free flow of ideas through member participation (Mazzarol, 2011b). More outstanding, the supply chain aspect has been found to strengthen performance sustainability (Desrochers and Fischer, 2005) by co-operatives relying upon the common purpose and loyalty of their memberships when faced with external threats and economic pressures (Nunez et al., 2004; Mazzarol et al., 2011b).

This is particularly because co-operatives involve members and access resource inputs through members in a way that is not possible for investor owned firms. Nunez et al. (2004), conclude that co-operatives are sustainable and can be " a valid alternative to current instability or economic concentration" (p.1149). Supporting the assertion, Mora and Menozzi(2005) in a study of the response by the Italian co-operative Italia to the Mad Cow disease crisis, found the ability for the co-operative to apply adequate enforcements of 'certified beef' supply chain requirements was enhanced by the relationship it had with its members. Along the same line of argument, in a concept paper, Garcia-Perez and Garcia-Martinez (2007) notes that enhanced co-operative members' collaborative supply chain network result in co-operative performance and financial benefit. In another conceptual paper Giannakas and Fulton (2005, p. 421), argue that a network of co-operative members "can increase the level of innovation and help to reduce the price" of inputs. In addition, trust is an important element in the success of co-operative and the nature of co-operative as a supplier or buyer owned enterprise engenders greater trust in the supply chain than might otherwise be the case for an investor owned firm (Ole-Borgen, 2001).

In overall, the studies reviewed agree that the co-operative structure as a value supply chain network is a competitive advantage that enables co-operatives to bring together people and resources resulting in superior outcomes for members and the enterprise.

Impact of Internal and External Rules and Regulations

Rules and regulations are detailed directions developed to put policy into practice. They define and characterize firm performance in a way that provides a mechanism to manage operations (Pataki, Dillion, and McCormack, 2003). According to Porter and Kramer (2011) use of universal measurement and appraisal systems help in collecting reliable benchmarking data, which in turn motivates and enables continuous improvement beyond set targets. Porter and Kramer (2011) also contend that, in functioning markets regulations are necessary because they shape the way organizations compete for survival and profit; and use of right kind of regulation can actually foster enterprise performance. Co-operatives being formal entities are subject to formal rules that regulate economic exchange. Formal co-operative rules define the incentive structure and impose constraints aimed at ensuring sustainable performance of enterprises (SASRA, 2011; Muthuma, 2011).

In their study, Makori et al. (2013) found that in the effort to comply with regulations co-operatives were able to overcome various challenges such as high dependence on short-term external borrowing, lack of liquidity monitoring system, high investment in non-earning assets, inadequate ICT system, inadequate managerial competencies and political interference among others. The study also revealed that compliance to rules led to operational stability brought confidence to the co-operatives. This consequently attracted new members and professionals who may have shied away, as well as new businesses. For instance, the government started channelling youth and women empowerment funds through some of the co-operatives. In addition, the enhanced transparency and accountability through rules and regulations in co-operatives improved trust and member patronage in the co-operative products and services (SASRA, 2011). In another study, Ngaira (2011) found that the operational management and governance framework provided by SASRA regulations greatly affected the outreach and sustainable performance of SACCOs in Kenya. The Saccos surveyed reported improvement in loan portfolio, cycle times, demand and quick recoveries as well increase in membership among others. As a performance measurement tool, regulations facilitate appraisal, benchmarking (Muriuki and Ragui, 2013) and increase management efficiency that may influence the performance of co-operatives (Kilonzi, 2012).

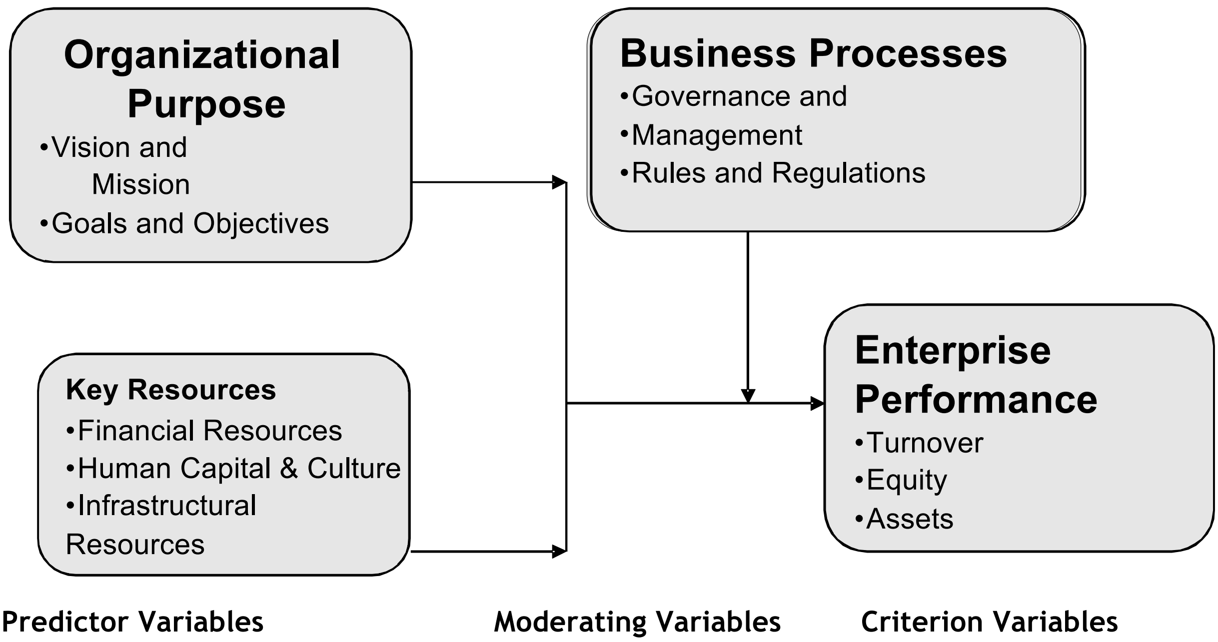

Figure 2 Hypothetical Relationships of Elements

Co-operative Enterprise Performance

Enterprise performance refers to total social-economic outcomes resulting from the interaction of model elements in the course of operations (Lusch and Laczniak, 1989). Performance is the most important goal and a key measure of output (Porter, 2004) in every organization, but defining, measuring and its source has been contentious among researchers (Abu-Jarad, Yusof and Nikbin, 2010). However, writers acknowledge that organizational performance is the ability of an organization to achieve its goals and objectives (Daft, 2000; Ricardo and Wade, 2001) such as high sales turnover, returns on equity and returns on assets (Mudaki, 2011; Mudaki, Wanjere, Ochieng, and Odera, 2012). Remarkably, just like Investor Owned Firms, co-operatives as business operations are subject to competitive rules (ICA, 2012; Birchall, 2012; Borzaga and Galera, 2012; MoCDM, 2012). In this context, their key measures of success must be those of business success; which include turnover, the rate of dividends, assets, loans, share capital, number of members and number of branches (Pagura, 2008). For this reason, Co-operative Performance is a good indicator of effects of Organization Purpose and Key Resources on Performance as moderated by Key Processes.

Conclusion

The literature reviewed provided definitions of the organizational purpose, key resources, business processes and their relationship with enterprise performance. The literature indicated broad agreement across the various papers with Mazzarol et al. (2011a, b) and Johnson et al. (2008) proposition that the four business model elements are the building blocks of any business performance whose power lies in their interdependencies. In addition, to perform well, a business should devise a stable system in which the elements bond to one another in consistent and complementary way. This is because changes to any of the four elements affect the others and the whole. As depicted in figure 1, Mazzarol et al. (2011a, b) further suggest that the co-operative business is a mechanism of the organizational purpose, key resources and the key processes that produces outcomes in a sustainable manner. This is supported by Borzaga and Galera, 2012; Mazzarol et al., 2011a, b, c; Birchall, 2010; Mayo, 2012; Ferri, 2012; Mazzarol, 2009; Mazzarol et al., 2012; Levi and Davis, 2008) who purport that the interaction of co-operative business model elements constitute the co-operatives competitive advantage because it is grounded on reality and offers unique value that is hard to imitate. In addition, Korsaa and Jensen, (2010) and Hedman and Kalling (2003) argue that the co-operative business model is indeed a strategic model because it unites the aspects of business strategy of efficient member services to give a competitive advantage to firms.

Based on literature reviewed, the paper proposes a hypothetical framework of the model elements relationships that researchers can use shown in figure 2. The proposed framework comprise of the following variables and their relationships:

Criterion Variables: Co-operative enterprise performance comprise of the increase in turnover, total deposits, total assets, total loans, share capital, total number of members and the number of branches. Co-operative performance may also focus on the rates of dividends and the interest on deposits. Performance is the most important goal and a key measure of output in all enterprises (Porter, 2004). Therefore, it would be the best indicator of effects of Organization Purpose and Key Resources on Performance as moderated by Key Processes.

Predictor Variables: Independent Variables comprise of Organization purpose and Key resources. The organization purpose that refers to the reason of existence of an entity (Teece, 2010) consists of the vision, mission, goals and objectives. The key resources, which refer to the stocks of factors of production owned or controlled by a firm (Penrose, 1995; Barney, 1991), comprise of Financial, Human Resource, and Infrastructural (Physical and Information Technology) Resources.

Moderating Variables: Business processes are the linking systems or means for eliciting action, exerting control and effecting coordination. They include governance and Management practices, Value Supply Chain and; Rules and Regulations (Mazzarol, 2009; Mazzarol et al., 2011a, b; Mazzarol et al., 2012; Qi et al., 2009; Kalakota, 2001; Koontz, 2007) which are perceived to enhance the influence of Key resources and Organization purpose on Performance (Johnson et al., 2008; Teece, 2010).

Recommendations for Future Research

Finally based on the literature reviewed, the co-operative model is a sustainable model of enterprise with better survival rate and resilient performance compared to investor owned firms (Borzaga and

Galera, 2012; Mazzarol et al., 2011a, b, c; Birchall, 2010; 2012, Mayo, 2012; Feri, 2012; Mazzarol, 2009). However, apart from the suggestion that the co-operative model facilitates superior performance (Jussila et al., 2012; Sabatini et al., 2012) there is still insufficient empirical assessment of the influence of co-operative business model on firm performance that can inform practitioners and policy makers *concerning the co-operatives development of its unique agenda*? Thus, to continue the debate, whilst wanting to retain and strengthen the existing focus on those elements of the co-operative business model leading to resilient firm performance, this paper recommends future research on the effects of interrelationships of model elements on firm performance, where the influence of combinations rather than characteristics of single elements are established. To facilitate the future research, the proposed framework in Figure 2 can be adopted.

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Comparative Study of Co-operative and Private Sugar Factories in Karnataka, India

N Nadoni,G. S. Ananth, P. S. Dhananjaya Swamy and M. Sagar

Abstract

The present investigation aimed at studying the relative economics of a private and a co-operative sugar factory in Belgaum district of Karnataka State in India. The study was based on both primary and secondary data which was conducted during 2012. The results revealed that, the overall averages of liquidity ratios viz. current ratio, acid ratio and liquid assets to total assets ratio except inventory ratio showed that private sugar factory performed better than co-operative sugar factory. Whereas overall averages of solvency ratios viz. total liabilities to owned funds and fixed assets to owned fund ratio, except debt-equity ratio indicated that co-operative sugar factory performed better than private sugar factory. The overall averages of turnover and financial strength ratio showed that co-operative sugar factory performed better than private sugar factory. Discriminant analysis revealed that working capital turnover ratio contributed 182.95 per cent for discrimination followed by fixed assets to total assets ratio (51.21 %) indicating these are vital ratios which differentiates the factories as co-operative and private sugar factory. The ratios such as total assets turnover ratio (107.94 %) and total liabilities to owned funds ratio (54 %) reduces the difference between co-operative and private sugar factories.

Keywords

Discriminant Analysis, Comparative Analysis, Co-operative, Financial Strength Ratio, India, Liquidity Ratio, Private Sector, Solvency Ratio, Sugar Industry, Turnover Ratio.

Introduction

Historical background

Sugarcane (*Saccharum officinarum* L.) is one of the most important commercial crops of the tropical countries and it is the main source of sugar in the world. Sugarcane originated in New Guinea where it has been known since about 6000 BC. The earliest reference to it is in the Atharva Veda [1500-800 BC] where it is called ikshu and mentioned as an offering in sacrificial rites. The word 'sugar' is derived from the ancient Sanskrit word 'Sharkara'.

Karnataka is one of the early entrants in the country to establish a sugar factory. Over the past four decades, there is substantial rise in cane production in Karnataka. On account of this large number of sugar factories have come up numbering about 29 factories operating in private and public sector and 18 under co-operative sector. Many Sugar units in the State have also increased their installed crushing capacities. The annual crushing capacity was 250 lakh tonnes. In addition, by-products like Ethanol, Co-Generation of power, Bio Compost making have become integral parts of sugar factories.

The economic viability of any sugar factory as an agribusiness unit depends on factors like financial condition, turn over, liquidity, solvency and marketing of the sugar etc. With a view to compare these performance factors both in co-operative and private sugar factories and to arrive at some policy implications, the Athani Farmers Sugar Factory Ltd (private sugar factory) and Krishna Sahakari Sakkare Kharkane Niyamit (co-operative sugar factory) in Athani taluk of Belgaum district of Karnataka state were selected for the study.

Materials and Methods

Financial ratios

Financial ratio analysis is a technique of financial analysis providing yardsticks in evaluating the financial performance of a firm. In this study the secondary data was drawn from the audited annual statements of the balance sheet, reports of receipts and payment account, profit and loss account of the sugar factory for a period of nine years from 2002-03 to 2010-11 were used. The financial ratios used for the analysis are described below

Solvency or structural ratios

Solvency is a reflection of the strength of the financial structure. It measures the ability of an institution to meet its obligation when it falls due. Ratios considered to assess the financial solvency of the factories are described below.

(a) Total liabilities to owned funds ratio is used to compare the amount of money that the factories owed to its creditors in relation to the amount of equity capital invested in the factories every year. This ratio is computed by dividing total liability by owned funds. The total liability includes long term, current and other liabilities.

(b) Fixed assets to owned funds ratio is computed by dividing the fixed assets by owned funds. Fixed assets include depreciated book value of buildings, machinery, vehicles tools and implements, share at other institutions and long term investments. Fixed assets are items not readily convertible into cash.

(c) Debt-Equity ratio is the ratio of long term loans to share capital plus reserves. It measures the extent of dependence of the organization in relation to equity. Excessive dependence on external equities indicates undercapitalization resulting in shortage of working capital. Excessive dependence on internal equities may lead to over capitalization resulting in inadequate returns to propriety fund.

Liquidity ratios

These ratios provide the measure of the institution's ability to meet its current obligations and reflect the short-term financial strength or solvency. Since liquidity is basic to continuous operation, it is necessary to examine the degree of liquidity of the organization to ascertain its ability in meeting the current financial obligations.

(a) Liquid assets to total assets ratio was computed by dividing liquid assets with total assets. The liquid assets consist of current assets like cash on hand, cash at bank, short term loans and advances, sundry debtors, closing stock, etc., which are relatively more liquid in nature. The total assets include current assets and fixed assets like land, building, machinery, and equipments, vehicles etc.

(b) Current ratio is the ratio of current assets to current liabilities. This financial ratio measures the ability of the organization to meet its short term obligation or current liabilities. Current assets include cash on hand and at bank, short term loans advances, recoveries, closing stock etc. Current liabilities include short term loans borrowed, interest provision on government loans, sundry creditors etc. The higher the current ratio, the greater the short term solvency. Current ratio provides a margin of safety to the short term creditors.

(c) Acid test ratio is the quick ratio or near-money ratio. The ratio is computed by dividing the current assets less inventory by current liabilities. This is an indicator of liquidity of an institution in terms of composition of more quick assets.

Turnover ratio

This group of ratios indicates the effectiveness and how efficiently the institution is managing the resources.

(a) Working capital-turnover ratio is useful in assessing the efficiency of the total working capital employed in the business operation. This is computed by dividing total sales with total working capital. The higher the ratio, greater is the efficiency and the rate of profitability.

(b) Inventory Turnover Ratio measures the effectiveness of the sugar factories in their sales efforts. This ratio gives the number of times the inventory turns over in a business during a particular period. This ratio was used to assess the average stock required to meet the day-to-day sugar sales of the factory. The higher the turnover ratio the better is the performance. The ratio was computed by dividing annual sales by average inventory.

(c) Total Assets Turnover Ratio this ratio was computed by dividing total sales by the total assets of the sugar factory in a given period of a time. This ratio indicates the number of times total assets are being turned over in performing the sugar sales operation. A higher ratio indicates that the composition of total assets is weak and a lower ratio indicates the accumulation of fixed assets.

Financial Strength ratio

These ratios measures were employed to assess the real worth of the sugar factory and are described below.

(a) Net Capital Ratio this ratio would reflect the financial strength of a business organization. The higher the ratio, the greater would be the margin of safety against the decline in the prices of major assets of the sugar factory. The ratio is computed by dividing total assets by total liabilities.

(b) Equity Capital Ratio reflects the composition of owner equity in the total capital base of the firm and was worked out by dividing owners' equity by paid up share capital.

Discriminant analysis

This is a multivariate technique used to discriminate between the factories as for predicting group membership. One of the objectives of this analysis was to investigate differences between organic and inorganic consumer groups on the basis of the attributes of the cases, indicating which attributes contribute most to group separation. DA involves the determination of a linear equation like regression that will predict which group the case belongs to. The Discriminant score is the basis for predicting to which group (a consumer of the organic or inorganic) the particular individual belongs. That can be calculated as follows:

$$Z = \sum_{i=1} l_i X_i$$

where,

Z= composite disriminat scores for the two groups,

X_i= Variables selected to discriminate the groups i.e., 10 variables and

1_i= linear discriminat co-efficient

Results and Discussion

The data from primary and secondary sources were analyzed and the results interpreted. These findings are presented under the following headings.

Liquidity ratios

Liquidity ratios were computed to measure the ability of each sugar factory to meet its immediate maturing obligation out of its own short term resources. These ratios provide better insight into health of an enterprise in terms of liquidity and economic strength. Thus, liquidity ratios are treated as inputs to assess the quality of capital structure and portfolio distribution of an enterprise. In all, four liquidity ratios were worked out and are presented in table 1.

Current ratio: Flink and Grunewald (1969) observed that current ratio above unity indicated a firm's ability to meet current obligations. In case of the private sugar factory the ratio gradually decreased from 5.39 (2004) to 2.48 (2011). There was greater decrease in the ratio in the year 2008 due to increased current liabilities in the form of cane bill payable, cane transportation incentive payable etc. The ratio was above the ideal (2:1) over all the years except 2008. In the case of co-operative sugar factory there was much volatility in the ratio over the years. The ratio was less than the ideal ratio (2:1) in the year 2005 (1.52), 2010 (1.20) and 2011(1.58). The private sugar factory maintained this ratio more

Table I: Liquidity Ratios of co-operative and privative sugar factories

Year	Current ratio		Acid test ratio		Liquid to total assets		Inventory ratio	
	Pvt.	Co- optv.	Pvt.	Co- optv.	Pvt.	Co-optv.	Pvt.	Co-optv.
2002-03	3.93	2.64	0.65	0.87	0.48	0.36	1.12	1.08
2003-04	5.39	2.00	0.35	0.49	0.52	0.32	1.15	1.51
2004-05	5.62	1.52	1.13	0.36	0.54	0.35	0.97	2.23
2005-06	2.92	5.92	0.75	0.80	0.58	0.57	1.13	1.04
2006-07	2.32	2.23	0.79	0.02	0.50	0.66	1.16	1.80
2007-08	1.84	2.12	0.42	0.18	0.38	0.55	0.99	1.57
2008-09	2.28	4.07	0.82	0.60	0.70	0.73	1.91	1.35
2009-10	2.00	1.20	0.47	0.22	0.57	0.56	1.53	4.97
2010-11	2.48	1.58	0.56	0.21	0.60	0.60	1.30	2.36
AVERAGE	3.20	2.59	0.66	0.42	0.54	0.52	1.25	1.99

Source: Financial statement of the factories

Note: Pvt. refers to private sugar factory, Co-optv. refers to Co-operative sugar factory

consistently than the co-operative sugar factory in all years of study. This can be seen by the overall average which was 3.20 and 2.59 for the private sugar factory and the co-operative sugar factory respectively. The result is in line with findings of Thippesha (1997). His findings indicated that private sugar factories increase their current assets in larger proportion against current liabilities when compared to co-operative sugar factories.

Acid test ratio A standard ratio of 1:1 is desirable for production units like sugar factories (Thippesha, 1997). In case of private sugar factory the ratio for all the years the ratio was below the standard ratio except in the year 2005 (1.53). The average of the ratio was 0.66. This indicated that the factory on an average had less current assets without any inventory compared to current liabilities. The same trend was observed in the co-operative sugar factory where for all the years under study period the ratio was less than the standard ratio value. Both the private sugar factory and the co-operative sugar factory had a ratio less than one in almost all the years under the study. This indicated that both sugar factories had not maintained adequate cash balances to meet the day-to-day requirements; instead they depended on their inventory for immediate commitments.

*Liquid assets to total assets ratio.*Maintenance of a high proportion of liquid assets to total assets is a sine-qua-non for efficient trading business (Subba Rao, 1985). The higher the ratio is a healthy sign for any organization. In case of the private sugar factory the ratio for all the years under study were above the average of the ratio (0.54) except in 2003, 2004, 2007 and 2008 with ratio of 0.48, 0.52 0.50 and 0.38 respectively. This indicated that the factory on an average maintained 54 per cent of the total assets as liquid ratio in most of the years during the study period. In case of the co-operative sugar factory the ratio increased continuously from 2003 (0.36) to 2006 (0.66) due to increased per cent of total assets as liquid assets. Then afterwards there was volatility in the ratio. The first three years of the study recorded lower ratio than the average due the fact that the less total assets were held as liquid assets. This indicated there was less working capital over the study period in the co-operative sugar factory as compared to the private sugar factory. This was due to increased inventory.

*Inventory ratio.*A ratio greater than one indicated that the net working capital was tied up in inventory (Ambi Ravi, 2011).In the case of the private sugar factory the ratio was found to be greater than one for all the years except in 2005 (0.97) and 2008 (0.99). The ratio in the private sugar factory increased from 2003 (1.12) to 2011 (1.30) with some fluctuation. This indicated that net working capital of the factory had decreased due to increased liabilities. In case of the co-operative sugar factory the highest and lowest ratio found was in the years 2009 (4.97) and 2006 (1.04) respectively with the average of 1.99. For all other years the ratio remained above one indicating that the working capital was tied up in the inventory. The co-operative sugar factory had relatively a greater ratio for all years with an overall average of 1.99. This can be attributed to the fact that the factory maintained a smaller proportion of inventory during the study period.

Solvency ratios

Three different ratios were computed to measure the share capital of the member's in the sugar factory against the fund provided by its creditors. These ratios were computed to elicit information on the ability of the sugar factory to cover its short term and long term debt obligation, the margin of safety offered to the creditors and also to know the potential earnings from the use of borrowed funds and results are presented in table 2.

Total liabilities to owned fund ratio. The total liabilities to owned fund ratio in the case of the private sugar factory was beyond the prescribed norm of 3:1 (Page *et al.,* 1970) during all the years except in 2003 (2.78) and 2004 (2.88) of the study period. The ratio showed an increasing trend indicating that the factory's dependence on external funds increased over the years. In the case of the co-operative sugar factory the ratio remained less than the prescribed norm for all the years during the study period. The ratio increased from 2.07 (2003) to 2.38 (2011) with an average of 2.39. This indicated that the factory's dependence on external fund was at a normal level. Thus, we can infer that the co-operative sugar factory showed an efficient management drive to decrease the liabilities to a relatively lower level during the study period.

Fixed assets to owned funds ratio. The standard fixed assets to owned funds ratio is 3:1. In case of the private sugar factory the ratio was below the standard ratio for all the years. During the year 2006 and 2007 it was 2.04 and 2.29 respectively.

The average of the ratio was 1.86 indicating that each rupee of owned funds tied up in the form of fixed assets was small which is desirable. In the case of the co-operative sugar factory the ratio also remained less than 2 for all the years with an average of 1.58. This was mainly due to the growth in owned funds and no investment on fixed assets coupled with depreciation. So, there is still a lot of scope for the factory to increase its fixed assets in future.

Debt-equity ratio. The debt-equity ratio is one of the key ratios and shows the factory's dependence on borrowed funds to run the business rather than the equity. A ratio less than 3 is found to be desirable. The ratio in case of the private sugar factory ranged between 0.36 (2003) to 0.79 (2011). The ratio remained less than 3 for all the years indicating the soundness of the factory regarding its debt and equity position. In the case of the co-operative sugar factory the ratio was also less than the standard norm indicating a soundness of the factory regarding its debt and equity position.

Turnover ratios

These ratios are known as activity ratios. These ratios indicate the efficiency of an organization in the utilization of available resources. The turnover ratios viz., inventory turnover ratio, total assets turnover ratio and working capital turnover ratio are presented in table 3.

Inventory turnover ratio. The inventory turnover ratio witnessed volatility during the study period in both the factories. In case of the private sugar factory the ratio was found to be more than unity in all years except in 2008(0.88) and 2009(0.85). Whereas, in case of the co-operative sugar factory the ratio was higher compared to the private sugar factory. The highest ratio was recorded in the year 2010 (3.76) and the lowest was

Table II: Solvency Ratios of Co-operative and Private sugar factories

Year	Total Liability To Owned Fund		Fixed Assets To Owned Fund		Debt-Equity	
	Pvt.	Co optv.	Pvt.	Co optv.	Pvt.	Co optv.
2002-03	2.78	2.07	1.67	1.95	0.63	0.98
2003-04	2.88	2.21	1.64	1.80	0.51	0.91
2004-05	3.54	2.11	1.56	1.66	0.57	0.90
2005-06	4.95	2.75	1.92	1.71	0.88	0.78
2006-07	5.54	2.72	2.04	1.51	0.67	0.66
2007-08	5.79	2.69	2.29	1.28	0.72	0.66
2008-09	4.19	2.23	2.10	1.70	0.72	0.59
2009-10	4.34	2.35	1.68	1.10	0.66	0.80
2010-11	5.34	2.38	1.87	1.49	0.79	0.70
Average	4.37	2.39	1.86	1.58	0.68	0.78

Source: Financial statement of the factories

Note: Pvt. refers to private sugar factory, Co optv. refers to Co operative sugar factory

Table III: Turnover Ratios of Co-operative and Private Sugar Factories

Year	Inventory turnover		Total assets turn over		Working capital turnover	
	Pvt.	Co optv.	Pvt.	Co optv.	Pvt.	Co optv.
2002-03	2.50	2.85	0.71	0.43	0.66	0.57
2003-04	1.01	1.48	0.45	0.46	0.40	0.64
2004-05	1.02	1.56	0.46	0.46	0.38	0.63
2005-06	1.41	2.15	0.60	0.69	0.49	0.88
2006-07	1.00	1.26	0.41	0.69	0.38	0.89
2007-08	0.88	1.24	0.46	0.67	0.41	0.86
2008-09	0.85	1.39	0.43	0.79	0.41	0.96
2009-10	1.38	3.76	0.57	1.19	0.46	1.71
2010-11	1.35	3.54	0.64	0.95	0.51	1.41
Average	1.27	2.14	0.53	0.70	0.46	0.95

Source: Financial statement of the factories

Note: Pvt. refers to private sugar factory, Co-optv. refers to Co-operative sugar factory

in the year 2008 (1.24). The overall average of the ratio in the private sugar factory and the co-operative sugar factory was 1.27 and 2.14 respectively. The average ratio of the co-operative sugar factory was 2.14 as compared to 1.27 for the private sugar factory, indicating high stock exit rate and better inventory management over the study period providing a competitive advantage as it can be more profitable. It also indicated that a larger amount of capital is tied up in inventory in the case of the private sugar factory and lesser current merchandise stock as compared to the co-operative sugar factory.

Total assets turnover ratio. A higher total assets turnover ratio indicates more efficiency and higher profit. In the case of the private sugar factory the highest and lowest ratio recorded was 0.41 (2007) and 0.71 (2003) respectively. In the case of co-operative sugar factory the highest and lowest ratio found was 1.19 (2010) and 0.43 (2003) respectively. The overall average ratio for the private sugar factory and the co-operative sugar factory was found to be 0.53 and 0.70 respectively. This indicated that the co-operative sugar factory requires more time than the private sugar factory in order to convert assets to generate sales revenue.

Working capital turnover ratio. The ratio showed a varying trend during the study period. The year 2004 (0.40), 2005 (0.38), 2006 (0.38), 2008 (0.41) and 2009 (0.41) recorded less than the average ratio of 0.46. This shows that the average working capital turnover was 0.46 times over the operational period for the private sugar factory. In the case of the co-operative sugar factory this average ratio was found to be higher i.e. 0.95. This indicated that the average working capital turnover was 0.95 times over the study period**.**

Financial strength ratios

The strength of a sugar factory could be assessed with the help of net worth, net capital ratio and equity capital ratio. The results of these ratios are presented in table 4.

Net capital ratio. The ratio greater than one is found to be desirable. The ratios in the private sugar factory remained almost constant for all the years, and were above one. The highest ratio was found in the year 2007 (1.38) and the lowest in the year 2010 (1.29) with an overall average of 1.27. This indicated that the assets were sufficient enough to cover all the liabilities. In the case of the co-operative sugar factory the ratio was higher than the private sugar factory for all years indicating that the assets can cover all liabilities. The highest and lowest ratio were 1.26 (2010) and 1.79 (2003) with an overall average of 1.50. This indicated that the co-operative sugar factory had maintained their assets and liabilities more efficiently as compared to the private sugar factory.

Equity capital ratio. The equity capital ratio is another important measure of the financial strength of a firm. The equity capital ratio in the private sugar factory increased over the years from 0.79 (2003) to 1.97 (2011) with an average of 1.26. This indicated the increased build-up of equity in total capital over the years. In case of the co-operative sugar factory the increase in this ratio was faster than the private sugar factory. It increased from 1.31 (2003) to 2.29 (2011) with an overall average of 1.81. This indicated that the co-operative sugar factory was able to maintain a larger proportion of its equity in total capital compared to the private sugar factory indicating relatively greater financial strength.

Table IV: Financial Strength Ratios of Co-operative and Private Sugar Factories

YEAR	Net capital		Equity capital	
	Pvt.	**Co optv.**		**Pvt.**
2002-03	1.24	1.79	2002-03	1.24
2003-04	1.25	1.39	2003-04	1.25
2004-05	1.28	1.28	2004-05	1.28
2005-06	1.25	1.60	2005-06	1.25
2006-07	1.38	1.37	2006-07	1.38
2007-08	1.20	1.51	2007-08	1.20
2008-09	1.29	1.57	2008-09	1.29
2009-10	1.23	1.26	2009-10	1.23
2010-11	1.29	1.74	2010-11	1.29
Average	1.27	1.50	Average	1.27

Source: Financial statement of the factories

Note: Pvt. refers to private sugar factory, Co-optv. refers to Co-operative sugar factory

Discriminant analysis

The average Z-score of the discriminant function was found to be -2.33 (Table 5), the values higher than this score pertain to the co-operative sugar factory and the lower values to the private sugar factory. The D^2 for the function was 3.15. The ratio of total assets turnover ratio had a negative discriminant coefficient of 16.99. Total liabilities to owned funds ratio, working capital turnover ratio, and fixed assets to total assets ratio had a positive discriminant coefficient of 10.89, 20.73, and 7.73 respectively. The F- test was found significant indicating that the groups were distinct. The working capital turnover ratio, fixed assets to total assets ratio contributed 182.95 per cent, and 51.21 per cent respectively to the gap between the two factories.

The difference narrowed down by the total liabilities to owned funds ratio and total assets turnover ratio with 57.60 per cent and 107.94 per cent respectively. This indicated that the total assets turnover ratio and total liabilities to owned funds ratio were comparable for both factories (Thippesha, 1997 and Eshwarprasad, 1987).

The eigen value provides an index of overall model fit which is interpreted as being the proportion of variance explained (R^2). Here the canonical correlation coefficient of 0.99 (Table 6) suggested that the model explains more than 90% of the variation in the grouping variable, i.e. whether the private sugar factory was performing better than the co-operative sugar factory or worse.

Conclusion

The comparison of the liquidity ratio reveals that both factories maintained adequate liquid assets, where a major portion of that was constituted by inventories. Therefore, both the factories were dependent on inventories to meet their short term obligation. Taking into consideration of the entire liquidity ratios we can infer that the private sugar factory maintained relatively larger liquidity to meet its immediate obligation. Total liability to owned fund ratio and fixed assets to the owned fund ratio in the co-operative sugar factory indicated that debts are within manageable limits, which is a healthy sign since it has lower threat of liquidation. The debt equity ratio in the co-operative sugar factory was relatively high indicating its more dependence on external debt. The inventory turnover ratio and total working capital turnover ratio showed that the private sugar factory had efficiently managed total working capital, total sale and inventories as compared to the co-operative sugar factory and thus made greater profits. Net capital ratio and equity capital ratio indicated that both the factories maintained sufficient quantity of capital in the form of total assets and owner's equity which strengthened the financial position of factories. The ratio of working capital turnover ratio contributed most to the total differences followed by fixed assets to total assets ratio. Total assets turnover ratio and total liabilities to owned funds ratio on the other hand reduced the difference between two factories.

Table V: Percentage Contribution of the Individual Variables (Ratios) to Discriminate in the Factories

Particulars	Standardized mean difference	Discriminant coefficient	D^2	Percentage contribution to the total
Total Liabilities to owned fund ratio	-0.16	10.89	-1.81	-57.60
Total Assets Turnover Ratio	0.20	-16.99	-3.40	-107.94
Working Capital Turnover Ratio	0.27	20.73	5.76	182.95

Table VI: Eigen value for the discrimination between the factories

Function	Eigen value	% of Variance	Cumulative %	Canonical Correlation
1	114.94	100.0	100.0	0.99

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Engendering Co-operatives in Africa: Gender Disparities and Solutions for Co-operatives

Esther Gicheru and Kirianki M'Imanyara

Abstract

Although co-operatives are democratic in nature, members have not fully utilized this opportunity to elect good leaders and mainstream women into management positions of co-operatives, even in situations where majority of members of a co-operative are women. The tendency to have only men in top leadership positions exist in many co-operatives in Africa. The objective of the survey was to generate information to understand gender disparities in co-operatives in Africa that will enable governments, co-operative organizations in Africa and development partners to formulate the right policies and strategies to promote national growth and through the empowerment of women gain a substantial reduction in poverty.

The principle of gender equity and equality are integrated into the values and principles of co-operatives because they are viewed as capable of contributing to women's empowerment. Co-operatives are hence considered as an enabling environment and vehicle of women's empowerment. In the same way, gender equality is considered as a key factor to the success of co-operatives.

The main findings of this study are that (a) the increase in female participation in the labour market over the past decade has not been matched by a substantial increases in their status and economic entitlements; (b) women are over-represented in least-paid and least-protected jobs, including in the informal economy; (c) small enterprises often remain caught, however, in vicious circle of low job quality, poor productivity, and (d) lack of labour market consolidation or stability, resulting in low growth and persistent poverty.

To bridge gender disparities in Co-operatives in Africa, this paper recommends that Co-operatives and Co-operative support institutions: (a) intensify gender education : (b) make Co-operative policies and regulations gender-friendly: (c) ensure gender-equality in employment and task-assignment: (d) give women opportunity and support in continuing education: (e) increase women's participation in decision-meetings: (f) ensure gender-parity in property rights, and, (g) conduct further research in this area particularly relating to failures in policy implementation.

Key Words

Africa, Co-operatives, Equality, Gender, Labour Market Participation, Women

Introduction

The ICA Statement on the Co-operative identity (ICA, 1995) provides the definition of a Co-operative as 'an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Co-operatives are founded on the basic values of self-help, self-responsibility, democracy, equality, equity and solidarity. ICA recognizes that gender equality is not just a question of justice that women and men should have equal opportunities in all aspects of life; it is a question of good economics and is essential for co-operatives to achieve sustainable development. This position reflects public policy in general on this issue. Gender equality is a priority area for most development agencies in education and social development and is seen as a question of good economics that is essential for development (Republic of Uganda, 2006). In additional there have been many international treaties on gender equality and rights of women. One of the most significant being the Beijing Declaration and platform for action was adopted at the 1995 Fourth World Conference on Women by representatives from 189 countries reflecting international commitment to the goals of equality, development and peace for all women everywhere (UNFPA, 2010).

The definition of a co-operative portrays co-operatives as both businesses and associations. The traditional co-operative regulations are democratic and based in solidarity (one member, one vote). The majority of contributors to the co-operative cause in Africa are said to be women, while the participation of women in management and leadership follow more general societal and economic trends. To get women to take leadership and management positions or to apply for upper-level positions in co-operatives is therefore not only an internal co-operative issue, but also a challenge for society in general. Therefore, any study of gender equality in co-operatives must also be viewed in the context of the role of co-operatives in society.

This paper is based on data collected through a two-pronged research approach comprising primary data collection in four countries supplemented by a literature review. Both qualitative and quantitative techniques of data analysis were used to analyze information gathered for this study. SPSS was used to analyze quantitative data while thematic and content analysis was used to analyze qualitative data.

Kenya

Gender relations in Kenya have been moulded by a combination of factors that draw on the influence of various traditions, customs and cultural practices, levels of education and awareness, economic development and emerging patterns of social organization, besides legislation.

According to the Government of Kenya (GoK) (2000), in recent years, Kenya has witnessed a rising trend in the number of female-headed households. Male migration, single motherhood, widowhood, divorce and separation all combine to make up a national average of 25% of female headed households. Over 80% of women live in the rural areas where the majorities are engaged in the farming of food and cash crops, livestock keeping and in agro-based income generating activities (GoK, 2000). It is estimated that women head 38 % of agricultural operations in Kenya. However, in many areas of the country, social and cultural constraints have persisted that hinder their participation and inclusion in decision-making at the family, community and institutional levels (GoK, 2000).

There has been has a long history of co-operative development with co-operatives cutting across all sectors of the economy. Co-operatives have made significant contributions to the country's economy with especially well advanced financial co-operative institutions which are built from the lower level to national level. The agricultural co-operative sub-sector is slowly recovering from the effects of liberalization even though agriculture dominates the country's economy. Inequalities in earnings, bargaining power and assets, employment and education between women and men still dominate the working conditions for women in rural areas where patriarchal social-cultural practices continue to dominate.

The Government of Kenya has developed a gender policy to enable men and women to have equal access to economic and employment opportunities. 'Gender point persons' have also been appointed in government institutions and government sponsored organizations to spearhead gender mainstreaming in those institutions. The policy of recruiting at least 30% women in organizations in Kenya is also being implemented

Malawi

Previous analyses on the social situation of women in Malawi have revealed that women are seriously disadvantaged in almost every sector of development. This is largely attributed to social attitudes against women entrenched in the Malawi culture which discriminates gender based on sex. This gender selection and imbalance has contributed significantly to subjecting most women to severe and harsh living conditions making them shoulder a higher percentage of responsibilities and manage heavy workloads in the community.

Women in Malawi continue to be under-represented at political, policy and decision making levels. This is due to culture which generally assigns leadership roles to men and partly due to low levels of education amongst females.

Significantly, however, the slow progress in addressing the social issues in the country is attributed to (a) the inadequate understanding of gender perspective in policies and programmes; (b) the unplanned way of dealing with issues of social development; and (c) lack of policy, coordination and monitoring mechanisms to guide the social development process. (Republic of Malawi, 2004)

In accessing education, pregnancy was largely to blame as the major reason for school drop-outs among girls in Malawi. Teachers and fellow pupils are the main perpetrators of this. The Government of Malawi has come up with a gender policy with the overall goal of mainstreaming gender into the national development process to enhance participation of women and men, girls and boys for sustainable and equitable development for poverty eradication. (ibid)

Uganda

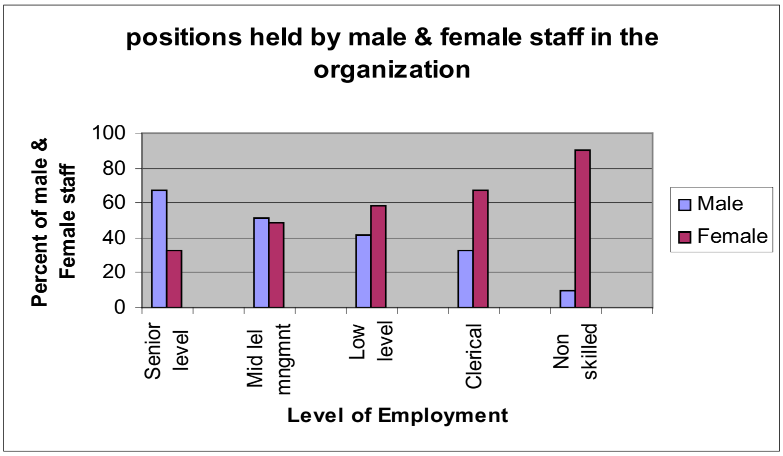
In Uganda, the majority of both women and men are subsistence farmers. Based on the gender intensity of crop production, the estimates suggest, that men and women are not distributed evenly across the sectors of the economy, as women comprise the majority of the labour force in agriculture, while men are a substantially higher proportion of the labour force in the industry and service sectors (Republic of Uganda, 2006). This data suggest a division of labour in the family whereby the women in subsistence farming work on the farm and the men leave their farm to work for cash. More females are unemployed compared to the males. In the urban areas the unemployment rate for women almost doubles that of men.

The Expenditure shares spent on alcohol in male-headed households triples that of female-headed households. The Republic of Uganda Gender Status Report (2006) indicates that the current imbalance financial rewards against agriculture is a further reason for the relative impoverishment of women as this sector is the main employer of women.

At the policy level, Uganda has made extraordinary progress in affirmatively enabling women to have more of a voice in public affairs. In the seventh parliament, 24.4% of the members were women (Republic of Uganda, 2006). Women in Uganda have little access to land and women headed households are less endowed with cattle in comparison to male headed households. Gender inequalities in Uganda are generally attributed to lack of control of resources and decision making power. Cultural subordination and unequal legal status are key contributors to gender inequality in Uganda.

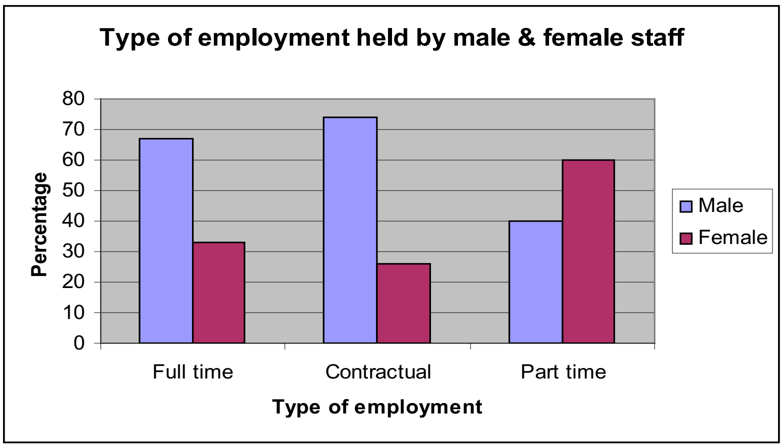
Although co-operatives are democratic in nature, the membership has not taken advantage of this democracy to elect appropriate leaders. The Ugandan experience shows that election of leaders is not necessarily a reflection of the required competencies or commitment to the co-operative business (Republic of Uganda, 2008). The Uganda National Co-operative Development Policy (2008) states that creating opportunities for equal participation in co-operatives

Table 3.1: Positions held by male & female staff in the co-operative organization



Source: Primary data: 2007

Table 3.2: Terms of Employment of male & female workers in Co-operatives



Source: Primary data: 2007

through entrepreneur development, promoting gender balance and sensitivity to gender specific concerns in the conduct of co-operatives business is a key priority.

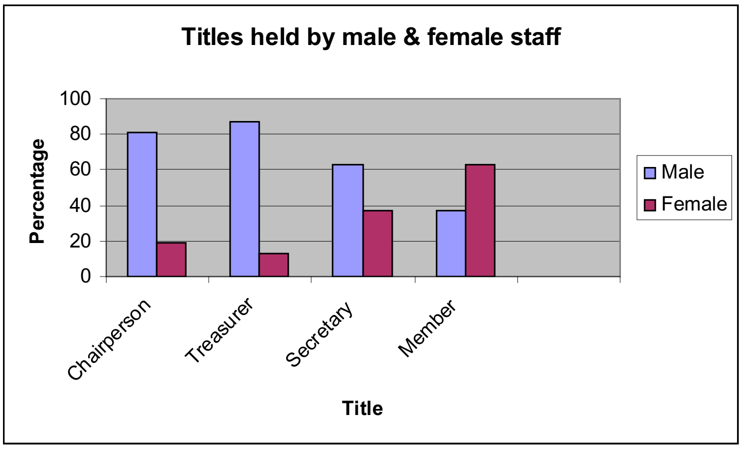
Tanzania

In Tanzania about 60 percent of women in Tanzania live in absolute poverty while it is estimated that women especially rural women provide 80 percent of labour force in rural area and produce 60 percent of food production (Government of Tanzania, 2008). Women's legal and human rights were constrained by inadequate legal literacy among women. The main reason being that the existing legal systems information and enforcement agencies do not reach the majority of women who live in rural areas.

Traditionally the status of women in Tanzania has been low compared to men. Women were not expected to influence the decision-making processes from domestic level to the national level. Women also face numerous constraints to access education and training at all levels. The problems include the unfriendly pedagogy especially in the teaching of mathematics, technical and science subjects, truancy, pregnancy, economic hardships and early marriages combine to constrain girls from completing their schooling.

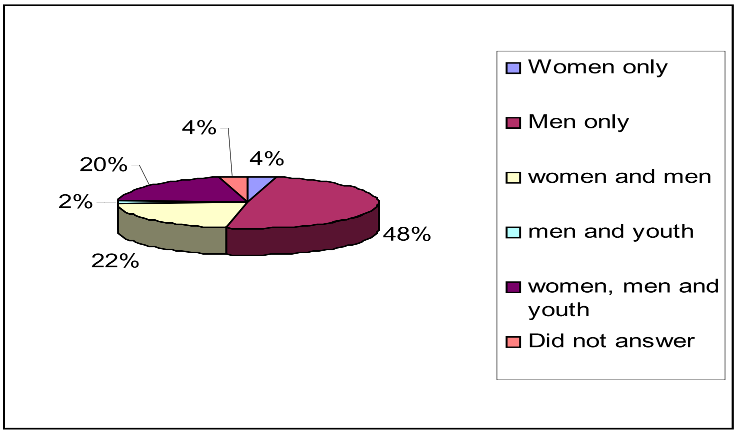
The government is in the process of making sure that gender issues are integrated in planning and budgeting, in order to strengthen the relationship between men and women to achieve sustainable development. According to the Government of Tanzania (2008) the Government has passed several laws in favour of women i.e. Sexual Offences Special Provisions Act of

Table 3.3: Board Positions Held Men and Women in Co-operatives



Source: Primary data: 2007

Table 3.4: Attending top level meetings



Source: Primary data: 2007

1998, the Land Law Act of 1999 and Village Land Act of 1999. The first Law protects women, girls and children from sexual harassment and abuse. The last two laws repeal and replace previous legislations on land matters thus enabling women to enjoy equal rights with men in access, ownership and control of land.

Summary of Research Survey Statistics

Taking an over-view of the survey for all the four countries (Kenya, Malawi, Uganda and Tanzania), five different characteristics emerge: (a) there were more male respondents (67%) as compared to the female (33%) (b) The survey reflects unevenly the various groups based on educational attainment with the education levels of respondents ranged from only primary (5%), high school (3%), certificate (24%), diploma (47%), and university (17%) and post graduate (4%) (c) most of the respondents were in employment in farming as their main occupation (d) most co-operatives in Kenya and Tanzania (85%) focused more on agriculture as compared to the other two countries in the survey where their main focus was banking and loans.

Gender and Employment in Co-operatives

Research results show that there is more male staff in senior level management (male 67%, female 33%) although there is closer equality at mid level management (male 51%, female 49%). At the same time there are more female staffs in low level management (male 42%, female 58%).In clerical positions there is fewer male staff (33%) than female staff in the co-operatives surveyed (67%). Male staff dominated in the non-skilled category (male 90%, female 10%).

These figures may well suggest that there is a shift in the co-operative sector towards more women occupying senior management levels over time but our survey is only a single point in time and contains no past data to indicate trends. Most respondents agreed that their co-operatives strive for equal distribution of men and women within different categories of work and on different levels. Nevertheless, most of the respondents also agreed that women were not equally represented in management positions.

Gender and Terms of Employment in Co-operatives

There are clear gender disparities in the terms of type employment contract as well as in occupancy of senior of positions in Co-operatives in Kenya, Malawi, Uganda and Tanzania. In most co-operatives surveyed there are more male full time (male 67%, female 33%) and contractual staffs (male 74%, female 36%). In cases of staff on part-time contracts there were more female then male staff (male 40%, female 69%).

Gender, Power and Board Positions in Co-operatives

Men dominate key power positions in the governance structures of Co-operatives in the four countries. The title ‘chairman’ (male 81%, female 29%), ‘secretary’ (male 63%, female 37%) and ‘treasurer’ (male 87%, female13%) is dominated by male staff whereas female staff are dominant as ‘members’ (male 37%, female 63%). These figures show that the co-operatives do reflect on their boards their predominance of female membership but as to why men still dominate the senior board positions our survey and the supporting government studies cited suggest that cultural and educational factors must largely explain this disparity between men and women on co-operative boards. Clearly this is a strong basis for developing female co-operative board members for positions of leadership in the near future.

Gender and Decision-Making in Co-operatives

Research in the four countries of Kenya, Malawi, Uganda and Tanzania shows that women’s participation in top level meetings is, to say the least, dismal at 4% compared to men’s participation at 48%. The inference here is that female participation in key decision-making processes is very low in the countries surveyed, and the situation may not be significantly different in the rest of Africa.

Maternity Leave for Employees of Co-operatives

Research results show that only a small majority (53%) of co-operative organizations in Kenya, Malawi, Uganda and Tanzania do pay women while on maternity leave and, even worse, 36.4% do not give women maternity leave at all. Failure to give women maternity leave means that women are forced by circumstances to resign their jobs during maternity period without guarantee of the jobs back thereafter.

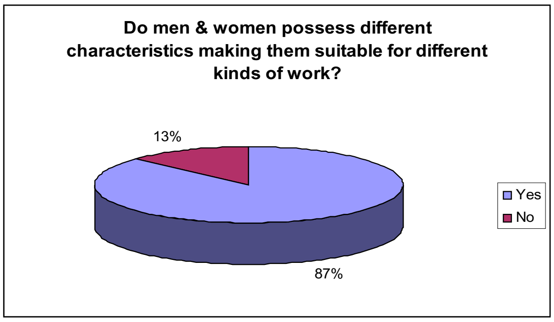
Gender and Menial or Routine Jobs in Co-operatives

Research in the four countries of Kenya, Malawi, Uganda and Tanzania shows that women dominate (33.6%) in the assignment of menial and routine jobs in Co-operatives while men fill 23.6% with youth and combined categories making up the difference.

Female / Male Characteristics and Suitability for Specific Jobs in Co-operatives

Research noted that the majority of people in Co-operatives across the four study countries of Kenya, Malawi, Uganda and Tanzania think and believe that women and men posses different characteristics that make them suitable for different kinds of work, most respondents (87%). Perhaps this explains why women dominate menial and routine jobs, why only few of them occupy top governance positions and why majority of them are employed on low level positions in Co-operatives.

Table 3.7: Gender Characteristics and Task-Orientation in Co-operatives

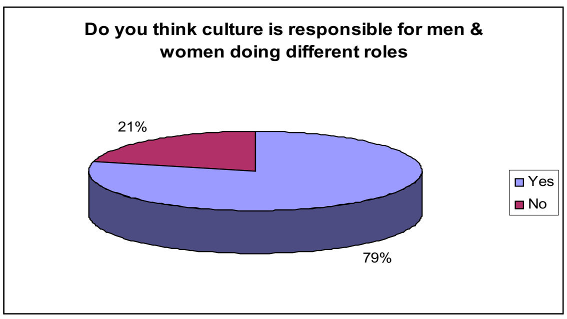


Source: Primary data: 2007

Gender, Culture and Task Assignment in Co-operatives

The research found that the majority (79%) of people in Co-operatives across the four study countries of Kenya, Malawi, Uganda and Tanzania shows that culture is a major criteria for assigning men and women different tasks and roles in Co-operatives. The research also shows that men dominated in attending meetings (83%) while cultivation of farms was left to women (34%) or to paid labourers (56%).

Table 3.8: Culture and Task Assignment in Co-operatives

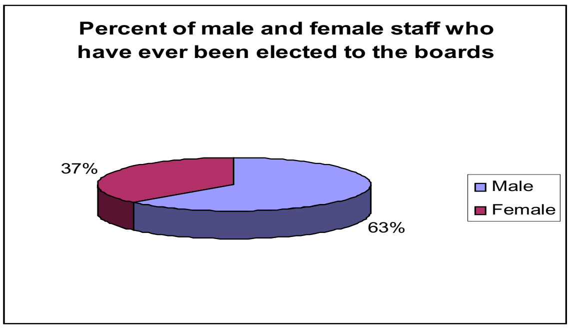


Source: Primary data: 2007

Gender and Member Representation on Governing Boards of Co-operatives

Research results from the four countries of Kenya, Malawi, Uganda and Tanzania show that men comprise 63% of 37% of women have served in the governing boards of Co-operatives at one time or the other.

Table3.9: Gender Representation on Governing Boards of Co-operatives



Source: Primary data: 2007

Property ownership, Access and Control

This research shows that males own most of the property compared with the female but a substantial percentage of assets are jointly owned by both men and women (45%). Most male respondents said they have the right to inherent the land when the head of the family dies. Both men and women acknowledge that women have access but not control of the assets of their families.

Conclusion

The study confirms the widely held view that there is gender inequality in co-operatives in Africa and yet co-operatives pride themselves as being rooted in democratic principles and being fair to all without any form of discrimination. Co-operatives should therefore give both men and women equal share of power and equitable participation in decision making in order to achieve sustainable development.

From the study, it is clear that men dominate in key areas of co-operatives from employment, better terms of employment, assignment of top positions, participation in top level meetings and decision-making, representation in governance boards, and even property ownership in which women have access and little control. For example, there are more male full time and contractual staffs as compared to women staffs, men dominate in spheres where there is control of resources like 'chairperson', 'secretary' and 'treasurer' whereas there are more female staffs who are just members of co-operatives. Likewise, men dominate in higher levels of management (senior & mid level management) whereas female staff dominate in low level management of Co-operatives and are assigned more menial and routine jobs like packaging.

Recommendations

Based on the findings of this research and its conclusions, this paper makes recommendations in seven key areas to provide solutions to ameliorate gender disparities in co-operatives in the study countries of Kenya, Malawi, Uganda and Tanzania. Such recommendations could be useful to other countries within and outside the region too.

Recommendation 1: Intensify gender education

There is need for co-operatives themselves and co-operative-support organizations to intensify gender education and training such emphasizing on the importance of equal representation should be done among different members of Co-operatives including women, youth and men who are the best people to identify and articulate their own needs and interests. Male domination in management and decision making organs of co-operatives prevents women from articulating their needs and interests.

Recommendation 2: Make Co-operative policies and regulations gender-friendly

From the study, most members have proposed revising of by-laws to give women a chance to participate fully in co-operative business. It is therefore essential that gender units with gender focal persons be established in Co-operatives to spearhead gender mainstreaming and women integration. The gender units will spearhead staff capacity building to mainstream gender issues into co-operatives, identify gender issues which constrain co-operative development and understand how co-operative resources, responsibilities, resources and benefits are allocated within the household. Through the gender units gender disaggregated data should be collected and utilized in the promotion of gender equality in co-operatives

Recommendation 3: Ensure Gender-Equality in Employment and Task-Assignment

This study shows that there is big gender disparity in terms of the type of employment, assignment of responsibilities and representation in governance boards in co-operatives. Recruitment of staff with a clear level of gender awareness is recognized as crucial to the development of a gender sensitive organizational structure (NAWO, 1993). As democratic organizations guided by, *inter alia,* egalitarian values of equality and equity, co-operatives should ensure gender equality in employment and task-assignment.

Recommendation 4: Give Women Opportunity and Support in Continuing Education

Co-operatives and co-operative support organizations should create and give to women opportunities and support in continuing education since education is crucial to acquiring economic advancement in life and at the workplace (Finsterbusch, 2004). Women have historically been disadvantaged in terms of seeking education. From the study, it's clear that women have lower educational levels than men. Co-operatives should encourage their members on the importance of educating the girl child in order to rectify the power imbalances in co-operatives.

Recommendation 5: Increase Women's Participation in Decision-Meetings

Given that research findings show that women's attendance and participation in top level meetings is low, it is recommended that male members of co-operatives need to be sensitized on the importance sharing household duties, allowing and encouraging their wives to attend and participate in meetings.

Recommendation 6: Ensure Gender-Parity in Property Rights

From the study, culture has been identified as a hindrance to women advancement in co-operative business. The findings are similar to a study done by the Republic of Uganda (2006) where it was found that limited control over productive assets is a systemic issue, where inequities in marital status and in property ownership intersect with cultural attitudes and believes to create formidable obstacles to change. It is recommended that both men and women need to be sensitized on the importance of involving women in making family decisions and on carrying out different roles in and out of the family.

Recommendation 7: Further Research

Given that there is insufficient research data on gender issues in co-operatives, and in particular the to the issue of developing levers to overcome barriers to the participation of women in co-operatives, it is recommended that urgent measures be taken to carry out research in each co-operative to explore gender inequalities in them to identify levers and recommend strategies for promoting gender integration.

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Inclusive Finance through Financial Co-operatives in India

Navin Anand

Abstract

The continuing high level of reliance on informal lenders by the poor in India suggests a fundamental failure in the co-operative financial sector of that country which must be first explained and then rectified. This paper relies on an extensive body of secondary research on financial co-operatives both in India and in other countries with more successful financial service co-operatives to identify causes of failure and opportunities for improvements. In concludes with a series of specific recommendations to build a more inclusive and accessible financial services sector in India. The papers overall approach focuses on the importance of the institutional and regulatory context concluding that in the Indian context reforms and improvements in the regulatory framework for financial co-operatives are overdue.

Key Words

Co-operatives, Development, Financial Inclusion, India, Micro Credit, Regulatory Framework, United Nations

Introduction

The United Nations General Assembly designated 2005 as the International Year of Microcredit to address the constraints that exclude people from full participation in the financial sector. In this context, the UN Department of Economic and Social Affairs (DESA) and the UN Capital Development Fund (UNCDF) undertook a project to analyse the obstacles to financial inclusion and to report on efforts to overcome those obstacles in a variety of countries. In 2006, the UN came out with a comprehensive document on inclusive finance Building inclusive financial sectors for Development. In this document, the role of financial inclusion was clearly expressed as;

"Creation and expansion of financial services targeted to poor and low-income populations can play a vital role in enhancing financial access. Inclusive financial sectors - those in which no segment of the population is excluded from accessing financial services - can contribute to attaining the goals contained in the United Nations Millennium Declaration, such as halving the proportion of people in the world who live in extreme poverty by 2015"(1).

The importance of financial inclusion, based on the principle of equity and inclusive growth, has been engaging the attention of policy makers internationally. Achieving universal financial inclusion is, indeed, a global objective and has multiple dimensions.

Some important decisions for financial inclusion in India

The Government of India, Reserve Bank of India (RBI), National Bank of Agriculture and rural Development, Small Industrial Bank of India and many other national and international agencies have been making concerted efforts to promote financial inclusion. Some of the major efforts made in the last five decades by Government of India and RBI include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, introducing self-help groups, permitting Business Correspondents/Facilitators to be appointed by banks to provide door step delivery of banking services, zero balance - Basic Saving Bank Deposit accounts, etc.

In order to speed up financial inclusion, the RBI advised all banks to open Basic Saving Bank Deposit (BSBD) accounts, relaxed and simplified KYC norms, simplified branch authorization policy, promoted opening of branches in un-banked villages and intermediate brick and mortar structures in the form of ultra-small branches, issued revised guidelines on Financial Literacy Centres (FLCs) and provided licenses to New Banks. The fundamental objective of all these initiatives has been to reach the large sections of the hitherto financially excluded Indian population.

Further, the Reserve Bank of India (RBI) introduced "Business Facilitator" and "Business Correspondent(2)" model to enable banks to improve outreach through innovative delivery mechanisms. Under this model, Panchayats, Post Offices, NGOs and Co-operatives are now allowed to function as business facilitators. Additionally, RBI advised banks for opening 'No Frill Accounts' with low or 'nil' minimum balance and simplified know your customer (KYC) procedures.

Government created two funds - Financial Inclusion Fund and Financial Inclusion Technology Development Fund with NABARD for speeding up financial inclusion by promoting technological and process innovations. There have been introduction of innovative delivery channels/methods adopted by banks, including new age co-operative banks such as Internet Banking, Mobile Banking, Mobile Automated Teller Machines (ATMs), multi-functional ATMs and smart card as part of initiatives aimed at financial inclusion. Recognizing these technologies, RBI suggested banks to adopt technology-based solutions for managing risks, and increasing the outreach in a cost effective manner.(3)

Infrastructure and Network for Micro Financing in India

More than hundred thousand (102343) branches of scheduled commercial banks are catering to the need of the people. In last five years, a total of 4017 branches are also added. As on 31 March 2013, on an average, one branch caters to 12,100 people. Besides branch network, there exists more than hundred thousand (114014) ATMs in the country. The government of India and RBI are taking various initiatives to enhance the financial inclusion(4).

Besides scheduled commercial banks there is a 3-Tier rural co-operative structure with State Co-operative Central Banks (SCCBs) at the apex, District Central Co-operative Banks (DCCBs) and Primary Agricultural Credit Societies (PACs) at the grass root level, which number 31,370 and 92,432 respectively. There are 1606 Urban Co-operative Banks (UCBs catering to the financing needs of urban people(5). In India, besides PACS, a large number of thrift and credit co-operatives have emerged in rural and urban areas. The data base creation and documentation of these co-operatives has yet to be done. In addition to this 4 Local Area Banks (LABs) also exist to provide services in local areas including microfinance services. Furthermore, we have around 12,225 NBFCs as at March 2013, which could be conceptually construed as semi-banks undertaking predominantly credit/investment activities.(6)

For financial inclusion permitting banks to engage individuals and entities as Business Correspondents was an importance initiative of the Reserve Bank of India in 2006. Besides individuals, not for profit organizations, mutual benefit institutions and private companies and even non-banking financial companies are allowed to function as Business Correspondents. According to RBI, at December, 2012, there were over 1,52,000 Business Correspondents deployed by Banks. During 2012-13, over 18.38 Crore (unit in the Indian numbering system) worth of transactions valued at Rs.16533 Crore had been undertaken by BCs till December 2012(7). To fast track the process of financial inclusion, RBI has permitted opening of Ultra Small branches (USBs) by the bank. These USBs function as a conduit between BCs and Banks. A total of 50,000 USBs have been set up till March 2013.

In spite of a large network of bank branches, Business correspondents, PACS and Ultra Small Branches, financial inclusion is still an issue as a large number of people are still excluded. As per census 2011, only 58.7 per cent of households are availing themselves of banking services in the country, however as compared with previous census 2001, it the percentage is increased significantly. The percentage of households is availing banking services was 35.5 per cent in 2001.

Financial Inclusion in India – Rural and Urban Scenario

In India, over 95 million poor rural households are part of the world's largest micro credit initiative wherein more than 7.3 million self-help groups offer savings linked micro finance services to their members. These SHGs are having savings to the extent of Rs. 82,170 million, out of which Rs. 65140 million is being contributed by 5.9 million - all women SHGs (81 % of the total SHGs)(8). Hence, financial inclusion in India, especially SHG movement is predominantly governed and managed by women and it is predominantly in rural areas.

As per the census of India 2011, the urban population of India has reached to 377 Million. Each year, about 1.2 million people are adding to urban population since 1951, mainly due to natural growth, rural-urban migration and horizontal expansion of urban area. The scale of urban poverty in India is staggering. Current estimates suggest that 100 million poor people live in urban settlements comprising about 40% of the urban poor. These numbers are expected to rise. The prediction is that the total urban population of India will increase from 26% of total population to over 36%-50% over the next twenty-five years. The number of urban poor would increase to 200-300 million.(9)

As far as financial inclusion in urban areas is concerned, unlike the rural, there is no consolidated data available for urban areas. This may be due to the fact that there is no apex institution like the National Bank for Agriculture and the Rural Development (NABARD) for financial inclusion in urban areas.

Besides other problems, there are two key problems in India concerning financial inclusion - low level of last mile connectivity and financial inclusion of persistently excluded groups of people. Financial inclusion is considered as a process of ensuring access to financial services and timely and adequate credit to the vulnerable groups such as weaker sections and low income groups at an affordable cost.(10)

Role of Financial Co-operatives at the International Level

Financial co-operatives are important players in the world banking system, reaching the poorest people and having a substantial economic impact. Worldwide, they serve over 857 million people, including 78 million living on less than $2 a day, and represent 23 per cent of all bank branches. Financial co-operatives include both co-operative banks (based mainly in Europe) and credit unions (set up originally in North America and developing countries), as well as banks owned by agricultural or consumer co-operatives. Co-operative banks, although member-owned, can have non-members as customers, whereas credit unions are licensed to serve members only.(11)

In Europe, there are 4,000 co-operative banks active in 20 countries, with 50 million members, 780,000 employees, €5.65 billion in assets and an average market share of 20 per cent.(12) Worldwide, there are over 51,000 credit unions that operate in 100 countries, with 196 million members and $1.56 billion in assets.

It is a fact that financial co-operatives including Credit Unions were the first and original microfinance institutions in the world. The present financial co-operatives existing in the form of credit unions, thrift and credit co-operatives, Primary Agriculture Credit Co-operatives (PACS), rural and urban co-operative banks etc. are in one way or the other based on the lessons drawn from the well-known models promoted by Raiffeisen, Shultze-Delitzsch, Dr.Wollemborg, Desjardins and the Rochdale pioneers.

In the context of inclusive development, co-operatives are critical institutions for both social and financial inclusion. Whereas the social inclusion issue is addressed by sub-sectoral and service co-operatives, savings and credit co-operatives function as intermediaries of inclusive finance. Co-operatives play a significant role in the provision of microfinance services to the poor, globally. Some of the largest banks in the world are co-operatives: Rabobank, for instance, has 50% Dutch citizens in membership. It is rated as world's third safest bank. A comprehensive report of ILO (2009) "Resilience of Co-operative Business Model in Times of Crisis" also notes that saving and credit co-operatives also known as credit unions or SACCOs, building societies and Co-operative banks all over the world are reporting that they are still financial sound, and that customers are flocking to bank with them because they are highly trusted(13).

Financial Co-operatives in India

The CRISIL report considers that the co-operative movement was the first effort towards financial inclusion. As per the CRISIL Report on Financial Inclusion –

> *"Financial inclusion is certainly not just a recent phenomenon. In India, the earliest effort at financial inclusion can be traced back to 1904, when the co-operative movement began in the country(14)."*

Indian financial Co-operative system is complex in nature but it is the largest financial co-operative system in the world, in terms of people served. An article by Dave Grace (2008) states that;

> *"Together, the urban sector, three tiered short-term rural sector and credit societies serve an estimated 267 to 390 million people. This compares to the second largest financial co-operative movement in the world in China which serves approximately 200 million people(15)."*

The All-India Rural Credit Survey Committee Report, 1954 recommended for an integrated approach to co-operative credit and emphasized the need for viable credit co-operative societies by expanding their area of operation, encouraging rural savings and diversifying business. Based on the recommendation of the committee, financial services in the form of savings and credit services through primary Agriculture Co-operative Societies were streamlined to provide support to rural poor especially small and marginal farmers.

The All-India Debt and Investment Survey (AIDIS) of 2002 revealed that 43 per cent of rural households continue to rely on informal finance, which includes professional moneylenders, agricultural moneylenders, traders, relatives and friends, and others. The Task Force (GOI, 2010) noted that the money lender today comes in many forms: as an outright lender; as a supplier of inputs/consumer goods; and as a for-profit non-banking finance companies (NBFCs) including the for-profit MFIs, as a buyer of produce, and as an owner of the land on which the farmer is dependent.

In India, micro financing through co-operatives was started in an organized manner after the state passed legislation to govern Co-operative in 1904. Since financial co-operatives have been heterogeneous in nature in term of membership therefore the financing done by PACS, thrift and credit Co-operatives and co-operatives banks has not been segregated as the loans for poor and others. Hence, financing by financial Co-operatives especially PACS has not been recognized and considered under microfinance. Technically, majority of the financial services provided by a variety of financial Co-operatives should come under micro financing as majority of the loans are less than Rs.50,000.

In India, under the Montague-Chelmsford Reforms of 1919, co-operation became a provincial subject and the provinces were authorized to make their own co-operative laws. Under the Government of India Act, 1935, co-operatives were treated as a provincial subject. The item “Co-operative Societies” is a State Subject under entry No.32 of the State List of the Constitution of India. During 1960s, further efforts were made to consolidate the co-operative societies by their re-organisation. After the emergence of various national federations of co-operatives in different sectors and functional areas the need of a central legislation was felt and therefore the Multi-State Co-operative Societies Act, 1984 was enacted by central government. Several successful urban co-operatives banks catering to the financial inclusion need are functioning under this Act.

Major reforms in Indian financial co-operative in last one decade

There has been a number of committees of inquiry into the structure and direction of co-operative financial institutions. The Dr. C. Rangarajan Committee report on Financial Inclusion and the Dr. Vaidyanathan committee(16) report on Co-operative Structures (2005) recommended more autonomy to PACS and recapitalization of credit organizations. The Hazari Committee Report recommended the integration of short-term and long-term credit structure. In addition there has been the Jagdish Cappor, (2000), Vike Patil (2001), V.S.Vyas (2001) committees and the possibly ironically named High Power Committee on Co-operatives (2009) all recommending various reforms for the co-operative sector. The following developments have taken place arising from these reports. First there has been the Model Co-operatives Societies Act and the enactment of MACS / Self Reliant Co-operative Societies Acts in different states; and the emergence of mutually aided, self-reliant, autonomous and fully democratic co-operatives;. There has also been legislation reforming of some of the older Co-operative Societies Acts through amendments in provisions aiming at the reduction in the Government’s equity and control over co-operatives and a revival package for Rural Co-operative Credit Institutions. The legal reforms/amendments in co-operative credit structures and societies have been a result of the acceptance of the revival package for short term co-operative credit.

Present Scenario and issues of Financial Co-operative

Historically, financial inclusion through co-operatives was taken up more in rural areas through District Co-operative banks (DCCBs) and Primary Agriculture Co-operative Societies (PACS). Gradually, urban co-operative banks and urban thrift and credit co-operatives also started contributing for the financial inclusion keeping their focus primarily in urban areas. After introduction of Mutually Aided Co-operative Societies Act popularly known as the Self-Reliant Co-operative Act, the scope of financial co-operatives has further widened.

The existing legal and regulatory structure of co-operatives in India is quite complex as different states are having different co-operative societies acts. More precisely, based on the legal scenario, states in India can be classified into four categories: States having both Self-reliant as well as the traditional co-operative societies legislation; States having re-engineered co-operative societies legislation; States continuing with the traditional co-operative societies legislation; and, States having only Self-reliant Co-operative Societies legislation.

In the context of financial inclusion, enactment of the Mutually Aided Co-operative Societies Act in 1995, by one State in India - Andhra Pradesh, was a significant step towards co-operative reforms.

Following the example of Andhra Pradesh, eight other States have also passed similar legislations to liberalise co-operatives and provide more autonomy to the members. Unfortunately, two state governments - MP and Odisha repealed the liberal co-operative laws in their states. The actual reasons of repealing the self-reliant legislation by two state governments is yet to be studied.

Share of Co-operatives in Micro financing through SHGs

Under the SHG-Bank linkage programme, the coverage of rural households having access to regular savings through SHGs linked to banks was 95 million as on 31 March 2013. About 73.18 lakh SHGs are linked with banks for savings. Out of the savings linked SHGs, 44.5 lakh are having outstanding credit with banks. The average loan outstanding of SHGs with banks is 88,500 against 83,500 a year back. There has also been a 6% spurt in the number of SHGs getting fresh loans from banks during the year to 12.2 lakh and the quantum of fresh loans issued also showed a significant growth of about 24% during the year. The share of exclusive women SHGs in the total number of SHGs savings linked to banks now stands at 81% while the groups formed under the SGSY programme now constitutes 28% of the total number of groups.

Among the agencies, Commercial Banks and RRBs recorded disbursement of over 1.8 lakh per group while their Co-operative counterparts recorded 0.91 lakh per SHG. Commercial Banks had an average outstanding loan of 1 lakh per SHG while RRBs had 0.79 lakh and Co-operative Banks had 0.46 lakh.

Composition of Indian Financial Co-operatives Today

In context of financial inclusion besides traditional co-operatives, several thrift and credit co-operatives/Multi-purpose co-operative shave emerged as federations of self-help groups. These Co-operatives are registered under self-reliant co-operative Acts of different States. Besides this various banks are also registered under the self-reliant Act. In the changed environment, following is the composition of financial co-operatives:

Multi-purpose co-operatives/ Thrift and credit co-operatives functioning as federations of SHGs

Rural/Urban Thrift and Credit Co-operatives/ Specialized Financial Co-operatives (i.e. Insurance Co-operative such as VIMO SEWA, Ahmedabad promoted by an NGO SEWA and registered under multistate co-operative society legislation) working directly with individuals to provide financial services to the members. These institutions are registered under Self-reliant Co-operative Acts or Multi-State Co-operative Societies Acts.

Primary Agriculture Co-operative Societies that are functioning as self-help promotion institutions or as Business Correspondents for banks and catering to the needs of the poor. So too are Co-operative Banks registered under traditional co-operative Acts at the rural levels - State Co-operative Banks, District Co-operative Banks, State Agriculture and Rural Development Banks, Primary Co-operative Agriculture and Rural Development Bank (PCARDBs), all are collectively having a special focus on Micro financing and are functioning as self-help promotion institutions. These initiatives have led to a number of experiments in financial inclusion by co-operatives

Some well-known experiments of financial inclusion by co-operatives(17)

In India, a variety of successful initiatives adopting innovative models of micro financing through co-operatives have been undertaken. These co-operatives are focusing on financial inclusion and include urban co-operative banks, thrift and credit co-operatives in urban and rural areas and multipurpose co-operatives functioning as federations of SHGs or a co-operative with only individual members.

Examples of urban co-operative banks

In India, SEWA was one of the first such initiatives to primarily start working for the urban poor in Gujarat State and also spread its services to rural areas as per the requirements. It was the first urban co-operative bank opted for providing Mobile Banking services in India. Further there have been several successful urban banks and women banks. These banks include Bagnio Nivedita Sahakari Bank Limited, Pune and Mann Deshi Mahila Sahakari Bank, Mhaswad. The Cuttack Urban Co-operative Bank, Orissa is not a women bank but a good example of successful urban co-operative bank that started an 'Agent Model' for daily collection of savings and to some extent for collecting loan instalments.

Examples of Rural Co-operative Banks

In India, various District Co-operative Banks focused on financial inclusion in addition to the rural financing that they were already doing. Some well-known examples of such experiments are the Bidar District Co-operative Bank and there are many DCB's in West Bengal and other states.

Examples of Thrift and Credit/ Multipurpose Co-operative Societies

The Co-operative Development Foundation, Hyderabad, Andhra Pradesh is an organization that sowed the seed of self-reliant co-operatives in India. The foundation promoted the Co-operative Thrift and Credit System (CTCS) as a community-owned self-help model. Some other successful examples are the Indian Co-operative Network for Women promoted by Working Women's Forum in Chennai. This is a unique multi-purpose women's co-operative registered under the Multi-State Co-operative Societies Act. It works with women's groups providing financial and non-financial services so as to give complete solution to livelihood promotion of poor women. The Annapurna Mahila Co-operative Credit Society in Mumbai is another example of a successful woman's thrift and credit co-operative.

A variety of SHG-federations have also emerged at various levels with a legal entity of co-operatives undertaking financial services, non-financial services or both. There are several self-reliant financial co-operative that are doing well. A close observation of these co-operatives reveals that co-operatives which are mobilizing deposits from their members and not depending on external sources of funds are able to sustain well. A good example of such co-operatives is the 'Apni Shakari Sewa Samiti Ltd' based in the district Jaipur, Rajasthan. The society provides options of various types of deposits such as savings, compulsory and term deposits. The society was having deposits of INR 17.7 million in 2009 which was increased to INR 30.2 million by the end of March 2010. Similarly during the same period loans worth INR 13.82 million were distributed making the portfolio to INR 32.3 million. This shows that the dependency on external sources of funds is quite low. Another variety of good self-reliant co-operatives is RLF Swavalambi Sehkari Samiti Ltd. in Bihar State. It was formed as a part of an ILO/CIDA pilot project for 'tribal's' and a revolving loan fund was provided by Rabobank.

In the context of rural multipurpose co-operatives Mulkanoor Co-operative Rural Bank and Marketing Society Ltd., established in the year 1956 is located at Mulkanoor, District Karimnagar, Andhra Pradesh is a good example. The annual turnover of the society is 156.77 lakhs and the products of the society include financial services, input supply services, marketing services, consumer services, and welfare services. The society was registered under the traditional Act earlier but now it is shifted to self-reliant Co-operative Act.

Examples of some special financial co-operatives

There are examples of financial co-operatives focusing totally on weaker sections such as Scheduled Caste/ Schedule tribe's population. Ankuram Sangamam Poram, Hyderabad part of AP Dalit-Bahujan Co-operative Societies' Federation Limited in Ankuram is an example of a federation of MACS which are comprised of the members from Dalit-Bhujan communities. Another innovative type of financial co-operative society is the Usha Multipurpose Co-operative Society (UMCS), Kolkata. This society is promoted by Durbar Mahila Samiti, Kolkata. It is a unique example of a society providing microfinance services to the sex workers and their families.

In mountain regions, there are innovative experiments going on in terms of providing micro finance services. Rawain Women's Multipurpose Autonomous Co-operative Society Ltd. (RWMACS), Uttarkashi (promoted by Himalayan Action Research Centre, in Uttarakhand is a good example of microfinance through federations of SHGs registered under Self-Reliant Co-operative Societies Act. Similarly, in IFAD funded project part of the Uttarakhand Livelihoods Improvement Project for Himalayas now named as Integrated Livelihood Support Project (ILSP) is also promoted by federations of SHGs at various levels and has registered them under the Self- Reliant Co-operative Societies Act as enacted by that State.

Examples of single service financial co-operatives

Since micro insurance is an important activity under the microfinance domain, National Insurance Vimosewa Co-operative Ltd. a society registered under Multi State Co-operative Societies Act and promoted by SEWA Ahmedabad, is a good example of providing micro insurance services to the women. Vimo SEWA increased its outreach to 129,080 in 2005. Its membership now includes seven states in addition to Gujarat, Bihar, Madhya Pradesh, Uttar Pradesh, Delhi, Rajasthan, Kerala and Tamil Nadu. As per an ILO case study, the Co-operative has over 6000 individual shareholders and 13 institutional members. In 2012, the gross premium was INR 18.11 Million.(18)

Key issues

Problem of Self-reliant Co-operatives

One of the key issues about self-reliant co-operatives is that there is no collation and dissemination of data about these co-operatives at one place and therefore there are information gaps related to such co-operatives at state and national level. One of the major differences between the traditional and self-reliant co-operatives in India is that self-reliant co-operatives are not created but emerged out of need.

Unlike traditional co-operatives, these co-operatives are homogenous in terms of social and economic status of members. Since central as well as state governments are not having any share in these co-operatives therefore government do not provide any financial support. However, these co-operatives are also not controlled by government. Government role has been just in registering these co-operatives. Since these co-operatives are not given support by the government they are also neglected by the banks. By virtue of composition these co-operatives face constraints of capital to meet the required large size loan demands from their members as their members are having limited resources and can only pool capital of a limited amount.

Self Help Group Federations

SHG Federations have emerged at various levels in different states. A number of these federations are undertaking financial as well as non-financial intermediation activities. For financial intermediation services, the SHGs and members depend on MFIs and Banks. Co-operatives could be good options provided provisions are made conducive for MF. In majority of the MACS/Self Reliant Co-operative Societies Acts, provision of nominal and associate membership is not included therefore the SHG federations depend largely on ordinary members' share capital and deposits. A GTZ and NABARD supported study of SHG federations in Rajasthan, Uttar Pradesh and West Bengal reveal that majority of the federations are registered as not-for-profit type of institutions and therefore not able to provide savings services to the members. Due to the fear of undue intervention of the State, they have not opted for registering under any co-operative legislation. Perhaps financial co-operatives would be good options for federation of SHGs to cater to the savings related services.

There are many positive aspects of the Mutual Aided Co-operative Societies Act, as these co-operatives can mobilize funds from its members and can also raise financial support from banks and other financial institutions. This situation will be more positive in the case wherein the provisions of nominal and associate membership will be included through changes in the respective Acts. In such situation the societies will be able to generate resources from these members as well. However, it is important to have a clear regulatory framework to watch that the autonomy given to these societies are not miss-utilised by few members. Hence, the challenge will be to get members involved in governance and oversight of their institutions.

PACS as SHPIs and Mini Banks

Based on the success of SHG-PACS linkage models and positive factors of PACS (wide national network, intimate knowledge and capacity to cater to the needs of rural poor, affordable interest rates on the loans, and good rates of interest on deposits), it is envisaged that PACS could be one of the appropriate agencies for fast tracking financial inclusion. PACS have low risks in providing MF services through SHGs.

PACS having mini banks are more appropriate financial intermediary for undertaking multiple financial services. Some good mini banks in India are having deposits of Rs.10 million or more, however these PACS, having good mini bank deposits are not allowed to use the savings/deposits for lending to the poor. It is envisaged that after implementation of Vaidyanathan Committee's recommendations, these PACS will be having more autonomy to function as microfinance institutions and could also act as good Business Correspondents.

SHG Membership in Co-operatives

Some States still have laws that do not permit SHGs becoming members and holding equity in PACS/Thrift and Credit Co-operatives. Examples of the provisions of SHGs becoming ordinary and nominal members of the PACS under Section 69 (1) (d) and Sec 69 (3) of West Bengal Co-operative Societies Act, 1983; and Modification in section 22 of Gujarat Co-operative Societies Act are good cases wherein the Acts permit SHGs to become members of PACS/ Primary Thrift and Credit Co-operatives. This provision is supportive of speeding up financial inclusion.

Micro finance through Sub-Sectoral Co-operatives

Sub-sectoral co-operatives like the Handloom Co-operatives, Handicraft Co-operatives, Agro-Processing Co-operatives are not able to provide micro finance services to their members and therefore even for small credit needs these members depend on other co-operatives, banks or money lenders. Additional provisions to permit linkage and membership of SHGs in the sub sectoral societies and societies functioning as a financial intermediary will help members to get financial services from a single door.

Financial Support from Government

The MACS/ Self Reliant Co-operative Societies Acts do not permit government shares in the societies so as to maintain the autonomy of the societies however this does not deny these co-operatives the right to avail themselves of other benefits and grants provided to the co-operative sector. At present, no grant/financial support is being provided by the Government even to the well-functioning co-operatives registered under MACS Act. There needs to be more clarity by Government and the Self- Reliant Co-operatives / MACS.

Enhancing Urban Micro Financing

Selected Urban Co-operative Banks are successfully functioning as Microfinance institutions in different states. In order to widen the scope, UCB registered under Multi State Co-operative Societies Act have still to take up lead role in micro financing. Many Thrift and Credit Co-operatives are catering to micro finance needs of urban areas with SHGs as primary units. However, there are some stand alone cases and not yet replicated.

Participation of Members

A very important issue is low participation of members in the affairs of Co-operatives. This can be attributed to lack of effort to enhance member equity in their co-operative and near absence of member communication and awareness building efforts. There is a need for provision in Indian co-operative law to ensure that members are users and for removal of inactive members expeditiously and on a regular basis.

Differentiation between Banking and Co-operative Activities

There is less clarity about - what constitutes banking activity to be regulated by RBI (Triangular Regulation) and what constitutes co-operative activity to be regulated by Registrar Co-operative Societies.

Value Delivery Chains

The value delivery chains of microfinance products and services are different for different organizations and therefore the models and methodology for undertaking each activity also differ case by case. Good governance, effective management, innovative processes and systems, member centred financial services, adequate and result oriented human resources will be prerequisites for the successful management of value chains.

Using Salary Earners Co-operative Societies in Financial Inclusion

There are number of Salary Earners Thrift and Credit Co-operatives which are in profits and having surplus money to lend. The SHGs of ultra-poor and excluded people can be linked with these co-operatives for financial inclusion under 'concern for community'. In this arrangement the provision of nominal membership can also be explored. Alternatively, minor changes in the Co-operative Societies Acts and bye-laws of these co-operatives can help these co-operatives undertake financial inclusion.

Financial Literacy and Counselling initiatives

The RBI has initiated action to introduce a model scheme of Financial Literacy and Credit Counselling Centres (FLCCs) (RBI Circular PCD.CO.MFFI.BC. No.86/ 2.01.18 /2008.09 04.02.09) through NABARD. Here, special type of service co-operatives can be established to undertake the work of FLCC. Besides promoting awareness and giving counselling for credit and savings it would be good to link FLCCs with insurance companies so that the poor can get information and counselling services from a single door.

Lesson from the Credit Union Model

Credit unions in the countries like Germany, Canada and Ireland are successful because there is strong regulation and supervision. Robust regulation seems to be an important ingredient for the success of Credit Unions. On the contrary, in India, the regulations and system of supervision is not very focused and clear and that creates scope for many politician and bureaucrats to use it in their favour adversely affecting the performance of co-operative. It is important that the financial co-operatives in India operate free from government interference in day to day management of societies however supervision and regulation is required for client's protection.

Approach and Suggestive Model

In order to address issues related to fast tracking financial inclusion, it is pertinent to see the scenario of financial inclusion through co-operatives by classifying different players and their relationships in context of three different environments: Macro, Meso and Micro.

Macro Level Environment

Macro Environment is important in terms of addressing Policy and Regulatory changes required for making the environment conducive for financial inclusion. Regulatory bodies like IRDA, RBI, Government of India and State Governments can independently and also collectively pursue the agenda of changing policies, Acts and regulations.

Meso level Environment

The organizations and their relationship in this environment reveals interface potential with Macro and Micro environment. A variety of promotional agencies, financing institutions, support and capacity building institutions form the Meso level environment. In context of financial inclusion and MF the organizations and network existing in this environment supports the micro level environment.

Micro Level Environment

The organizations and set up at micro level is most important for implementation of the financial inclusion initiatives through co-operatives. The issues relate to strengthening these institutions and making them more autonomous and self-governed. Segmenting the excluded people will help to develop strategies for coverage of these people and also in developing innovative products and services.

Keeping in view the share of co-operatives in providing microfinance to SHGs for on-lending, it is pertinent for sector to have proactive approach to make changes in Macro, Meso and Micro level environments related to microfinance.

At *macro level*, policy and regulatory issues must be streamlined and can be made conducive for the microfinance. Changes in the some of the provisions in the Acts related to membership, functional and management autonomy, utilization of surplus and Governance etc. can change the whole scenario at the national and state levels thereby facilitating faster growth of co-operatives at grassroots level. Here the learning of successful co-operative union model will be useful wherein there is good regulation by the government but full autonomy is provided to the unions to look after day to day management of their societies.

At *meso level*, vertical and horizontal collaboration between different types and levels of co-operatives and other service providers would be required. At the *micro level* 'Cafeteria Approach' will be required so that co-operative can provide solutions to a wide range of clients through multiple financial products and services. Co-operatives need to become a 'One stop solution' for the poor.

Two Suggestive Models for successful financial inclusion by co-operatives in India

Suggestive Model No. 1:

The first model given below shows the availability of various types of co-operative institutions in India and on the other side the microfinance services that are appropriate for each subset of financial co-operatives. Some of the co-operatives have already taken up appropriate microfinance activities as service providers however many activities proposed in the model are yet to be tested.

Suggestive Model No. 2:

The second model is a linkage model to be adopted at the grassroots level. The key aspect of the model is that the co-operatives function as a federation of SHGs. It generates most of the resources of its own by taking savings and deposits and providing multi-faceted services to the members. The governance proposition is such that poor and the majority of active members govern the society.

Financial Services in the model include Savings/ Deposits/Investment (Multi-Savings Products), Micro Credit, Micro Leasing Social Security- Insurance, Micro-Pensions, Transfer of Money - Remittances, Payments Services, Financial Literacy and Counselling Services

Description of the linkage Model:

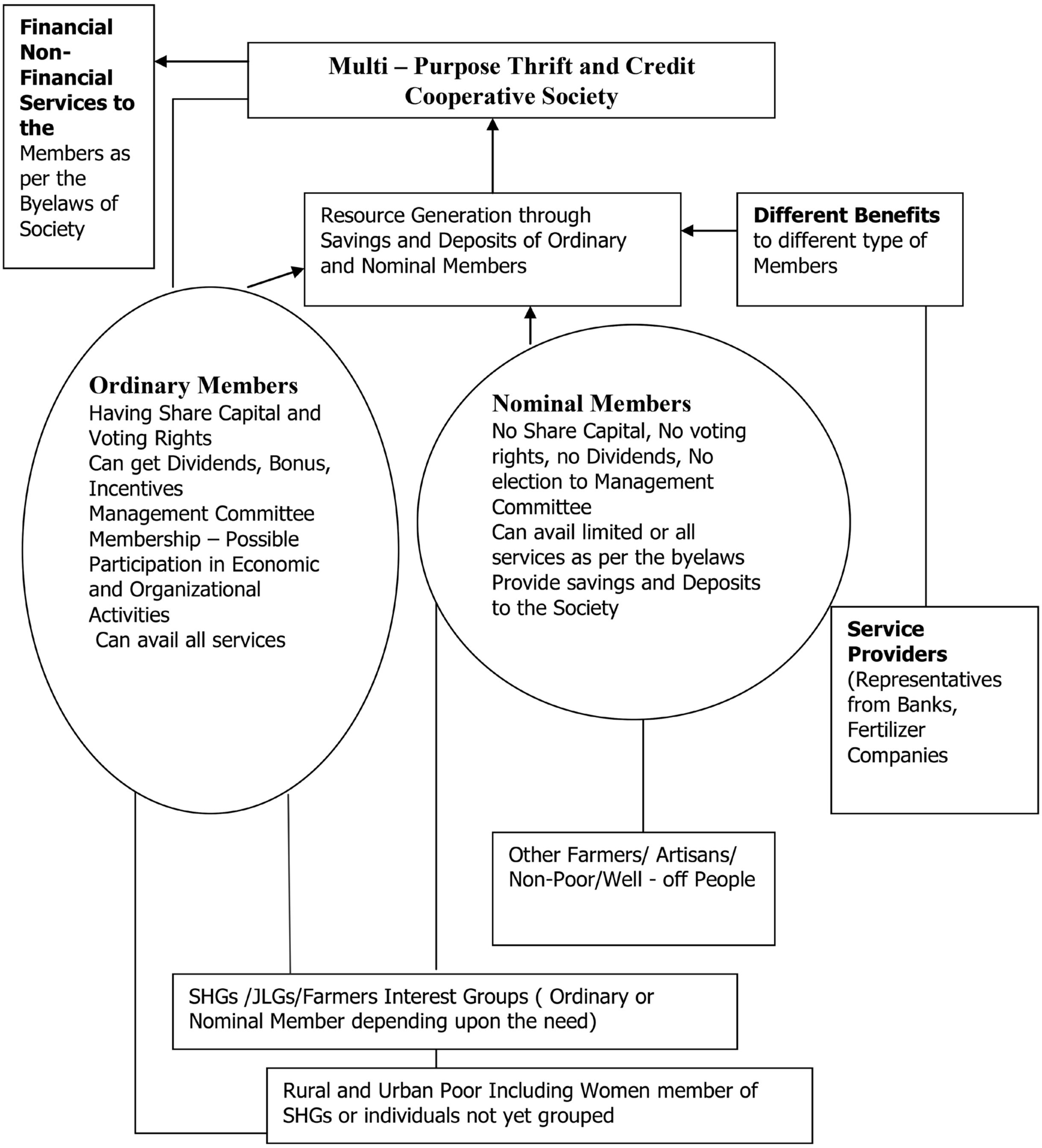
The linkage model proposed in India is a model of federation wherein the primary thrift and credit co-operative or multipurpose co-operative functions as federations of SHGs. Since the Acts are varying in different states in terms of providing permission to SHGs to become member of a primary Co-operative, therefore there can be three options - SHGs becoming ordinary member of the society or as nominal member or not becoming member of society but all the members are members of the co-operative.

Three types of membership are shown in the model: ordinary, nominal and associate. In most of the Self-reliant Co-operative Acts, provision of nominal and associate membership is missing. This is one reason that federations of SHGs functioning as thrift and credit

Model -1 : Showing Types of Cooperatives and appropriate Microfinance Products and Services

Type of Cooperatives	Microfinance Products and Services
Rural Areas • Primary Agricultural Credit Societies (PACS) • District Central Cooperative Banks (DCCBs) • State Cooperative Banks (SCB) • Multipurpose Women thrift and credit cooperatives - SHG feds./SHG Based • Thrift and Credit Cooperatives (Reg. under state/ Multi state Cooperative Societies Act) • New Age Cooperatives/Mutually Aided Cooperative Societies (MACS) **Urban as well as Semi Urban / Rural Areas** • Women Urban Cooperative Banks (WUCBs) • Urban Thrift and Credit Cooperatives • UCBs registered under Multistate Cooperative Societies Act 1984 • Salary Earners Cooperative Societies – For Salary Advances	**Savings / Deposits and Investments** (Multiple Savings Services: Savings deposits, Fixed Deposits, Recurring Deposits, Obligatory Deposits, Children/Students Accounts, Medical Accounts) **Micro Credit** **Short Term Advances** - Consumption loans including education loans; Productive loans (For skills development + Income Generating Activities/Livelihoods (Farm and Non-Farm both) and Salary Advances.
• State Cooperative Agriculture and Rural Development Bank (SCARDB) through its branches • Primary Cooperative Agriculture and Rural Development Bank (PCARDBs)	**Medium and Long Term Advances –** Housing loans, Investments in agriculture, Infrastructure Loans, Machines and Tools, Rural Industries **Micro Leasing** Leasing of Farm and Non-farm Productive Assets and Infrastructure
• Multipurpose Women thrift and credit cooperatives - SHG feds./SHG Based • Primary Agricultural Credit Societies (PACS) • Thrift and Credit Cooperatives (Reg. under State/ Multi State Cooperative Societies Act) • New Age Cooperatives/Mutually Aided Cooperative Societies (MACS) • Salary Earners Cooperative Societies – For Micro Pensions	**Social Security** **Micro Insurance –** Life Insurance, Health Insurance, General Insurance (including insurance of productive Assets), Livestock Insurance etc. **Micro Pensions –** Salary Earners as well as Self-Employed
All types of Financial Cooperatives	**Transfer of Money** Remittances, Payments Services
Special Service Type of Financial Training and Advisory Cooperative Societies	**Financial Literacy and Counseling Services**

Model 2: Proposed SHG and Individuals Based Federation Model



Model Developed based on the learning of ApniSahkariSewaSamiti Ltd. Fagi, Jaipur, Rajasthan (Promoted by CECOEDECON) co-operatives are having low share capital and also working capital.

In the proposed model, resources will be generated by giving nominal and associate membership and getting capital from them. The proposed SHG based federation models are having following positive features, however there will be requirement of changes in the MACS Act/ Self-Reliant Co-operative Acts in terms of membership

Positive Features of the proposed Linkage model

a) Generation of Resources at the local level therefore less dependency on external source of funds

b) Funds availability at a low cost so there are possibilities to keep the interest rates affordable

c) There is advantage of heterogeneity of membership in terms of generating resources

d) Involving non-poor people in the society by making them nominal members and getting their savings and deposits from them

e) Promoting savings habits among the members by providing multiple options

f) Keeping the ownership, governance and management of the society in the hands of poor by innovatively forming the bye laws of the societies

g) Involving service providers in the form of associate members and getting deposits from them to use it for on-lending

h) Providing different benefits to different categories of member

Conclusion

In the present situation, there is an urgent need for streamlining the regulatory environment of financial co-operatives in India. If there can again be a single Act in the whole country, a number of complexities related to regulations will be reduced and transparency will be there. Alternatively, States can take initiatives to have a single piece of legislation for co-operatives in their State to reduce complexities. Re-engineering old legislation are required to make it more conducive for financial co-operatives.

Declaration: *The views given in the paper are personal views of the author and do not reflect the views of his organization.*

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A Need to Harmonize the Definitions of Co-operative terms: the case of the Statute of the European Co-operative Society, Regulation 1435/2003

by O. Klimi-Kaminari and C.L. Papageorgiou

Abstract

Every discipline adopts a terminology specific to it in order to make possible communication and translation of documents in other languages. The definition of the terms used is of paramount importance for linking concepts with the terms used. Such specification is sine qua non for translation of official and legal documents or for official interpretation in the European Union with its 23 official languages.

Writers on co-operative issues often feel the need to specify the terms used either in the text body(1) or as a glossary (2) or terminology (3) at the end of the books. In the past, the International Co-operative Alliance (I.C.A.) had published a "Vocabulary of Co-operative Terms"(4), where each term was given in five languages (5) but no definition of the terms was provided.

In the European Union, the Service competent for translating official documents possesses its own Multilingual Term Base but whatever its size and extent in a large number of fields of knowledge and activity, social economy terminology is not included. It is understood that it could not be demanded from professional translators to be familiar with the meaning attached to specific terms of every branch of economic activity or field of knowledge. On the other hand, legal instruments of the European Union have to be clear and consistent in the usage of terminology.

The writing of the present paper has been motivated by the confusion facing a reading of Regulation 1435/2003 regarding the Statute of the European Co-operative Society and its translation into other languages. The papers close examination of this problem in the context of this regulation demonstrates a wider issue of social economy terms in EU translations that needs to be addressed. It recommends urgent action by the leading International Co-operative Alliance's European Region to establish consistent translations for key co-operative and social economy terminology.

Key Words

Accounting, Co-operative Terminology, European Union Statutes and Regulations, Governance, Identity, Languages, Meaning, Translation.

The identification of the problem: the translation into Greek

Regulation 1435/2003 is entitled: "On the Statute of the European *Co-operative Society(6)* (SCE). The accompanying Directive 2003/72 bears the title "Supplementing the Statute for a European *Co-operative Society* with regard to the involvement of employees". There is no doubt whatsoever that the two legal instruments refer to the same institutions: The European *Co-operative Societies*. This, however, is not the case with the corresponding Greek texts. There is a small problem on p 52. I reproduce the original text below:

"If the corresponding Greek titles are translated back into English, the Regulation is referring to European Co-operative Company (συνεταιριστική εταιρεία – syneteristiki eteria) and the Directive is referring to European Co-operative Society (συνεταιρισμό - syneterismos)." For Greek legislation, the term "co-operative" (syneterismos) is equivalent to the English term "co-operative society" whilst the term "co-operative company" is used to mean an enterprise subject to company law (and not the co-operative law). According to the Greek law No 2810/2000 (article 32) co-operative company is a company (S.A.) with shares owned totally or by more than 50% by co-operatives or/ and by co-operative companies.

Although the cross-reference between the Regulation and the Directive is makes it obvious that the two legal instruments use of the terms "European co-operative society" and "European co-operative" interchanging, the differences in Greek legislation remained and it took time and effort to make civil servants accept that

European Co-operative Society and European Co-operative mean the same thing. But it remains uncertain if future legislators or judges will have the necessary background or time to conclude that so far as the European legislation is concerned, the terms used by the Greek versions for the Regulation and for the Directive (i.e. "co-operative company" and "co-operative" mean the same thing as that used in other Greek legislation termed "co-operative"). As things stand now, "co-operative society" in European legislation means one thing and "co-operative company" in Greek legislation means a different thing.

This is more than a "Greek" problem as we demonstrate below by a cross examination of key terms in the contents of the Regulation 1435/2003 in four languages. We have revealed inconsistencies in the use of some important terms both within the text of the same language and among the four languages. Some examples are elaborated below.

Some specific co-operative terms critical for both their accounting and governance practices

The economic management of co-operatives has been enriched by two terms that do not appear in the management of conventional enterprises. These are the terms "surplus" and "reimbursement'. The reason for introducing these terms is the different nature of co-operatives as economic enterprise. First, let's consider the term "surplus".

Co-operatives are established by groups of persons in order to serve these persons. When a co-operative offers services to its members, a kind of trade relationship is developed between the Co-operative and its members. The members act both as entrepreneurs and as customers at the same time. As an example, take a farmers' co-operative. The co-operative (i.e. the members) decide to buy fertilizers for the needs of the members. Bulk purchases directly from the fertilizer company enjoy a reduced price by, say, 30 per cent.

Table 1 English original: surplus

	Terms used in the regulations			
Position in the Regulation	English term	French term	German term	Italian term
4.1.b	surplus	résultat	Ergebniss	utili
5.4.8th dash	surplus	excédent	Überschuss	utili
22.1.d	surplus	résultat	Überschuss	avanzo di bilanzio
65.1	surplus	excédent	Jahresüberschus	avanzo di bilancio
65.2	surplus	excédent	Überschuss	avanzo di bilancio
67	surplus	excédent	Ergebniss	avanzo di bilancio
67.1	surplus	excédent	Überschuss	utili riportati
67.2	surplus	excédent	Ergebniss	avanzo

Table 2 French original: excedent

	Terms used in the regulations			
Position in the Regulation	French term	English term	German term	Italian term
5.4.8th dash	excédent	surplus	Überschuss	utili
65.1	excédent	surplus	Jahresüberschus	avanzo di bilancio
65.2	excédent	surplus	Überschuss	avanzo di bilancio
67	excédent	surplus	Ergebniss	avanzo di bilancio
67.1	excédent	surplus	Überschuss	utili riportati

The handling of fertilizers until unloading at the co-operative storehouse may cost another 5-10 per cent. Thus, co-operative action proves to be beneficial to members.

The decision to be taken by the co-operative is to define the price to be charged to members for fertilizers. There are two alternatives (options):

At purchase price, i.e. the price paid to the fertilizer company plus handling costs. In this case, members get directly the benefit due to co-operative action and this benefit is equal to 20-25 per cent of the market price of fertilizers. At the stage of closing the accounts of the Co-operative at the end of the financial year, no *surplus* (i.e. difference between payments and receipts) is generated for the co-operative from purchasing and disposing fertilizers to members.

At market price, i.e. a price equal to the one charged to farmers buying fertilizers individually in the market. In this case, the members themselves decide to settle their accounts with the co-operative at a later stage. Before closing the accounts at the end of the year, the co-operative (i.e. the members) may decide to return the *surplus* withheld from members, partly or in total. If only part of it is *reimbursed,* the remaining constitutes the surplus that members willingly set at the disposal of their co-operative for further developing its activities or for other purposes in accordance with the 3rd co-operative principle.

Obviously, the nature of *surplus* is entirely different from the nature of *profit* of a conventional enterprise. Profit is the compensation of the entrepreneur for using his skill and resources in serving his customers. In this case, entrepreneur and customers are two

Table 3 German original: Uberschusse

	Terms used in the regulations			
Position in the Regulation	German term	English term	French term	Italian term
5.4.8th dash	Überschuss	surplus	excédent	utili
22.1.d	Überschuss	surplus	résultat	
65.1	Jahresüberschus	surplus	excédent	Avanzo di bilancio
65.2	Überschuss	surplus	excédent	Avanzo di bilancio
67.1	Überschuss	surplus	excédent	Utili riportati

Table 4 Italian original: avanzo

	Terms used in the regulations			
Position in the Regulation	Italian term	English term	German term	French term
22.1.d	avanzo	surplus	Überschuss	résultat
65.1	avanzo di bilancio	surplus	Jahresüberschus	excédent
65.2	avanzo di bilancio	surplus	Überschuss	excédent
67	avanzo di bilancio	surplus	Ergebniss	excédent
67.2	avanzo	surplus	Ergebniss	excédent

Table 5 The term profit in English

Position in the Regulation	English term	French term	German term	Italian term
Preamble, point (10) 5th dash	Profits	benefices	Gewinne	utili
Chapter V	Profits	résultats	Betriebsergebnisse	utili
54.3	Profits	résultats	Ergebnisse	utili
67.1	Profits	résultats	Ergebnisse	utili

different entities. In the case of the co-operative, entrepreneur and customers are the same persons and it is inconceivable to imaging profit generated between one member with him/herself. This is why the 3rd co-operative principle does not make any reference to "profit".

In practice, co-operatives may also serve non-members. It should be made clear that in such cases co-operatives make *profits* from such dealings and these profits should be treated by the tax authorities in the same way as for the profits of conventional enterprises. In view of the above, our examined in what follows of the use of these terms by Regulation 1435/2003 and especially the consistency with which each of four European languages is translated may have considerable significance for co-operatives and credit unions in their national contexts.

The treatment of the term "surplus" in the Regulation

If we accept that the appropriate corresponding term for the term English "surplus" in other languages is "excédent" in French, "Überschuss" in German, and "avanzo di bilanzio" or simply "avanzo" in Italian, it is interesting to see how this term is translated in Regulation 1435/2003. Table 1. shows that there is no consistency among the languages. Given that it is not known to the authors which are the original language, this exercise is repeated by taking other languages as the original ones.

Thus, if English is the original language, there are cases where in French "excédent" is replaced by "résultat", in German "Überschuss" is replaced by "Ergebniss" and in Italian "avanzo" or "avanzo di bilancio" is replaced by "utili". If French is the original, the English term "surplus" is consistently used to correspond with the French term "excédent", but in German there are cases where the term "Überschuss" is replaced by "Ergebniss" and in Italian the term "avanzo" or "avanzo di bilancio" is replaced by the term "utili", as shown in Table 2.

Table 3 shows that if German is the original language, the term "surplus" is consistently used to correspond to the term "Überschuss" but in French there is a case where the term "excédent" is replaced by the term "résultat" and in Italian there are cases where the term "avanzo" or "avanzo di bilancio" are replaced by the term "utili".

Finally, if Italian is the original language of the Regulation, the term "surplus" is again consistently used to correspond to the terms "avanzo" or "avanzo di bilacio" but in German there are cases where the term "Überschuss" is replaced by the term "Ergebniss" and in French there is a case where the term "excédent" is replaced by the term "résultat", as shown in Table 4.

From these Tables one can conclude that whichever is the original language, there is no consistent use of the term surplus in the translations.

The term "dividend"

It has been said above that co-operatives are formed for serving their members' interests. It has been said also that "surplus" is generated from the business relations between the members and their co-operative. This surplus (or part of it) may be returned to members in proportion to their business with their co-operative according to the 3rd co-operative principle. Given that surplus is formed from the transactions of members with the co-operative in proportion to their transactions, the 3rd co-operative principle indicates that reimbursement (or refund) should follow the same rule for the portion refunded. It is, therefore, obvious that *reimbursement is* not the same with *dividend*. Reimbursement is the returning of a sum previously withheld (i.e. surplus), whilst *dividend* is a portion of *profit*.

For the surplus returned to members the three of the four languages in question use the term *"ristourne"* in French, *"Rückvergütung"* in German and "ristorno" in Italian. However, in English the term *"dividend"* is used, i.e. the term used for conventional enterprises. The present authors have the view that the term *"reimbursement"* or *"refund"* would be more appropriate, although they are familiar about the extensive use of the term "dividend" both in theory and in practice in the English speaking world.

The term "profit"

In the case where co-operatives serve non-members, no surplus but profit is generated, because in this case co-operatives act in the same way as conventional enterprises. For this reason profit should not be distributed to members. It should be allocated to the reserves and should be used for the other destinations specified in the 3rd co-operative principle.

It would prove beneficial to co-operatives to support the distinction between "surplus" and "profit" in co-operatives, as this would contribute to maintaining their specific nature and to having a solid argument against the taxation authorities for the exemption of "surplus" from taxation. Exemption of surplus from taxation should cease to be considered as a prerogative unduly granted by governments to co-operatives and should be recognition of the fact that reimbursement (or refund) is the returning of the sum withheld by the legal persons of co-operatives in the transactions with their members. Profits of co-operatives, as defined above, should be duly taxed.

As for the use of the English term *"profit",* in the texts of the other languages, there are further discrepancies. Table 5 shows the liberal use of the term "profit" if this is taken to be the original version.

All the above terms are used repeatedly in Chapter V of the regulation and one needs help in order to make clear the arrangements necessary to be included in the Statute of a co-operative and to apply in practice. It should be stressed that the practical importance of Chapter V is very high for transnational co-operation to be facilitated.

Conclusion

It is obvious that for such an important legal text as Regulation 1435/2003, destined for implementation at European level and especially in cross-border co-operative activities, the strict definition of the terms used is of utmost importance. The preamble of the Regulation should consist of a series of definitions of functional terms. Further, the original text should be specified, in order to constitute the reference text in cases of ambiguities, and each term should be consistently used throughout the text. Otherwise, cross-border partnerships could be referred to courts for solving differing understanding of the terms; but courts would not be in a position to deliver fair decisions and, of course, these matters should not be left to courts for definition.

The International Co-operative Alliance (I.C.A.) and especially its European component (Co-operatives Europe) as well as other representative co-operative organs, like the CCACE(7) should take steps for providing the definitions of useful functional co-operative terms and then ask the Commission's competent organs to incorporate these terms in their multilingual term base.

Notes

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2. Cobia, D., (ed.) "Co-operatives in Agriculture", Prentice Hall, Englewood Cliffs, New Jersey, 1989.
3. Abrahamsen, M.A., "Co-operative Business Enterprise", McGraw-Hill Book Company, N.Y., 1976.
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5. English. French, German, Italian,
6. Italics by the author
7. Co-coordinating Committee of European Co-operative Associations9. Co-coordinating Committee of European Co-operative Associations

A Trend Analysis in Selected Urban Co-operative Banks in Tamil Nadu

Mrs. A. Menakadevi and Mrs. B.S. Vanetha

Abstract

The paper reports on the results of a trend analysis study whose objectives was to a) analyze the general function of the Urban Co-operative Banks and, b) to analyse the non-performing assets position of the selected Urban Co-operative Banks in the study. The study was prompted by recent high number of failures amongst these Banks.

Key Words

Co-operative Banks, Non-Performing Assets, Trend Analysis, Tamil Nadu

Introduction

The origins of the co-operative banking movement in India can be traced to the close of nineteenth century when, inspired by the success of the experiments related to the co-operative movement in Britain and the co-operative credit movement in Germany, such societies were set up in India. Today the co-operative movement is quite well established in India. The first legislation on co-operation was passed in 1904. The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary co-operative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. The origins of the urban co-operative banking movement in India can be traced to the close of nineteenth century. This distinction does not hold today. These banks were traditionally centred on communities, localities work place groups. They essentially lent to small borrowers and businesses. Today, their scope of operations has widened considerably. The first urban co-operative bank in India was formed nearly 100 years back in Baroda. They mainly depends upon deposits from members and non-members and in case of need, they get finance from either the district central co-operative bank to which they are affiliated or from the apex co-operative bank if they work in big cities where the apex bank has its Head Office. They provide credit to small scale industrialists, salaried employees, and other urban and semi-urban residents.

Statement of the Problem

Co-operative Bank failures have been relatively high in recent years. While each bank failure is a somewhat a unique experience, recent studies have identified a few factors that most failing banks seems to have in common. Most banks that fail seem to do so because of problems in their loan portfolio. Nonperforming loans grow to such an extent that revenues fall off and loan loss expenses as well as operating costs, absorb all the earnings that remain. The bad loan situation usually arises from a combination of factors. Failing banks often have inadequate systems of spotting a problem loan early. Finally, failing banks frequently have expense control problems. Management may invest the banks money in lavish offices and enjoy handsome fringe benefits that the banks earnings simply cannot support. When the banks troubles become evident to depositor, it must then pay higher interest rates to secure funding, further increasing its operating costs. Eventually expenses may erode what limited earnings are available and bank capital begins to fall.

Urban Co-operative Banks plays a vital role in fulfilling credit needs of the urban people. They cater to the credit requirements of small business and other industries activities situated in and around the catchments area of the Bank. In spite of this, there is always risk of accounts becoming non-performing. Therefore, there is a need to devise a suitable strategy for accounts, which have gone bad and classified as non-performing assets.

Trend Analysis: A Theoretical Framework

The financial statement may be analyses by computing trends of series of information. This method determines whether the data is showing an upward tendency or downward tendency. But it is not necessary that the rise or fall must continue in the same direction throughout the period. A Trend has been measured to find out the growth factor and the rate of charge and also to estimate the future on two basis growth factor method of least square help to the future trend.

Methods to calculate Least Squares

One of the best ways of obtaining trend values is the method of least squares. It is a mathematic method from which a straight line trend is obtained. This line is called the line of best fit. By taking the time as independent variable (x) and the observed values as dependent variable S(y) the trend line of the firm yc=a+b can be found. In the straight line trend, future period values are represented by the equation. Yc=a+bx. Where yc= Trend values, X= time, a and b are constant. The values of a and b can determined by:

$A=\sum y/N$

$B=\sum xy/\sum x^2$

a = mean value of y

b = Rate of change

The Trend Analysis for NPA (Non-Performing Asset) for selected Urban Co-operative Bank is namely Tiruppur, Namakkal, Erode and Salem in Tamil Nadu State.

Data Analysis and Interpretation

TABLE 1.1 TREND ANALYSIS AND ESTIMATEOF NPA FOR TIRUPUR CO-OPERATIVE URBAN BANK

(Rs.in Crores)

YEAR	TOTAL NPA (Y)	X	x^2	XY	YC=a+bx
2003-2004	95.37	- 4	16	-381.48	58.01
2004-2005	75.10	- 3	9	-225.30	53.68
2005-2006	44.36	-2	4	-88.72	49.26
2006-2007	44.36	-1	1	-44.36	44.84
2007-2008	29.94	0	0	0	35.99
2008-2009	15.98	1	1	15.98	35.99
2009-2010	25.57	2	4	51.14	31.58
2010-2011	23.27	3	9	69.81	27.16
2011-2012	23.92	4	16	95.68	22.74
2012-2013	26.31	5	25	131.55	18.32
	$\sum Y$=404.18	$\sum x$ =5	$\sum x^2 = 85$	$\sum xy = -375.70$	

$$Since \sum x = 5$$

$$a = \frac{\sum y}{N} = \frac{104.18}{10} = 40.42 \qquad b = \frac{\sum xy}{\sum x^2} = \frac{-375.70}{85} = -4.42$$

Hence yc=a+bx

Trend Value for 2003-2004 = 40.42–4.42(-4)= 58.01

Trend Value for 2004-2005 = 40.42 -4.42(-3)=53.68

Trend value for 2005- 2006 = 40.42– 4.42(-2)= 49.26

Trend value for2006-2007 = 40.42– 4.42(-1)= 44.84

Trend value for 2007 - 2008 = 40.42 – 4.42 (0)= 35.99

Trend value for 2008-2009 = 40.42– 4.42 (1)= 35.99

Trend value for 2009-2010 = 40.42 – 4.42 (2)= 31.58

Trend value for2010-2011 = 40.42 – 4.42 (3)= 27.16

Trend value for 2011-2012 = 40.42 – 4.42(4)=22.74

Trend value for 2012- 2013 = 40.42 – 4.42 (5)= 18.32

The table 1.1 presents the trend forecasting of total NPA. The present trend value had an decreasing trend from 58.01 Crores in 2003-2004 to 18.32 Crores in 20012-2013.The future trend value of Tiruppur Urban Co-operative Bank also discloses an decreasing trend in future period.

TABLE 1.2 TREND ANALYSIS AND ESTIMATE OF NPA FOR NAMAKKAL CO-OPERATIVE URBAN BANK

(Rs.in Crores)

YEAR	TOTAL NPA (Y)	X	x^2	XY	YC=a+bx
2003-2004	49.92	- 4	16	-199.68	40.43
2004-2005	56.04	- 3	9	-168.12	44.01
2005-2006	11.55	-2	4	-23.10	47.59
2006-2007	97.26	-1	1	-97.26	51.17
2007-2008	69.30	0	0	0	54.75
2008-2009	86.14	1	1	86.14	58.33
2009-2010	11.78	2	4	23.56	61.91
2010-2011	32.41	3	9	97.23	65.49
2011-2012	79.81	4	16	319.24	69.07
2012-2013	53.30	5	25	266.50	72.65
	$\sum Y = 547.51$	$\sum x = 5$	$\sum x^2 = 85$	$\sum xy = 304.51$	

$$Since \sum x = 5$$

$$a = \frac{\sum y}{N} = \frac{547.51}{10} = 54.75 \qquad b = \frac{\sum xy}{\sum x^2} = \frac{304.51}{85} = 3.58$$

Hence yc =a+bx

Trend Value for 2003-2004 = 54.75 + 3.58 (- 4)= 40.43
Trend Value for 2004-2005 = 54.75 +3.58 (-3)= 44.01
Trend value for 2005- 2006 = 54.75 + 3.58 (- 2)= 47.59
Trend value for 2006- 2007 = 54.75 +3.58 (- 1)=51.17
Trend value for 2007- 2008 = 54.75 +3.58 (0)= 54.75
Trend value for 2008-2009 = 54.75 +3.58 (1)= 58.33
Trend value for 2009-2010 = 54.75 +3.58 (2)= 61.91
Trend value for 2010-2011 = 54.75 +3.58 (3)= 65.49
Trend value for 2011-2012 = 54.75 +3.58 (4)= 69.07
Trend value for 2012-2013 = 54.75 +3.58 (5)= 72.65

The table 1.2 presents the trend forecasting of total NPA. The present trend value hadan increasing trend from 40.43 Crores in 2003-2004 to 72.65 Crores in 20012-2013.The future trend value of Nammakkal Urban Co-operative Bank is also discloses an increasing trend in future period.

TABLE 1.3 TREND ANALYSIS AND ESTIMATE OF NPA FOR ERODE CO-OPERATIVE URBAN BANK

(Rs.in Crores)

YEAR	TOTAL NPA (Y)	X	x^2	XY	
2003-2004	69.33	- 4	16	-277.32	42.69
2004-2005	52.51	- 3	9	-157.53	44.00
2005-2006	48.67	-2	4	-97.34	45.31
2006-2007	40.57	-1	1	-40.57	46.62
2007-2008	41.61	0	0	0	47.93
2008-2009	30.85	1	1	30.85	49.24
2009-2010	30.85	2	4	61.70	50.55
2010-2011	99.02	3	9	297.06	51.86
2011-2012	35.07	4	16	140.28	53.17
2012-2013	30.86	5	25	154.30	54.48
	$\sum Y = 479.34$	$\sum x$ =5	$\sum x^2 = 85$	$\sum XY = 111.43$	

$$Since \sum x = 5$$

$$a = \frac{\sum Y}{N} = \frac{479.34}{10} = 47.93 \qquad b = \frac{\sum XY}{\sum x^2} = \frac{111.43}{85} = 1.31$$

Hence yc =a+bx

Trend Value for 2003-2004 = 47.93 +1.31 (- 4) = 42.69

Trend Value for 2004-2005 = 47.93 +1.31 (- 3)= 44.00

Trend value for 2005 – 2006 = 47.93 +1.31 (-2)= 45.31

Trend value for 2006 – 2007 = 47.93 +1.31 (-1)= 46.62

Trend value for 2007-2008 = 47.93 +1.31 (0)= 47.93

Trend value for 2008-2009 = 47.93 +1.31 (1)= 49.24

Trend value for 2009-2010 = 47.93 +1.31 (2)= 50.55

Trend value for 2010-2011 = 47.93 +1.31 (3)= 51.86

Trend value for 2011-201 = 47.93 +1.31 (4)= 53.17

Trend value for 2012-2013 = 47.93 +1.31 (5)= 54.48

The table 1.3 presents the trend analysis of total NPA. The present trend value had an increasing trend from 42.69 Crores in 2003-2004 to 54.48 Crores in 20012-2013. The future trend value of Erode Urban Co-operative Bank is also discloses an increasing trend in future period.

TABLE 1.4 TREND ANALYSIS AND ESTIMATE OF NPA FOR SALEM CO-OPERATIVE URBAN BANK

(Rs.in Crores)

YEAR	TOTAL NPA (Y)	X	x^2	XY	YC=a+bx
2003-2004	39.90	- 4	16	-159.60	26.61
2004-2005	36.78	- 3	9	-110.34	29.42
2005-2006	34.96	-2	4	-69.92	32.23
2006-2007	14.82	-1	1	-14.82	35.04
2007-2008	48.29	0	0	0	37.85
2008-2009	44.49	1	1	44.49	40.66
2009-2010	53.71	2	4	107.42	43.47
2010-2011	23.17	3	9	69.51	46.28
2011-2012	39.47	4	16	157.88	49.09
2012-2013	42.92	5	25	214.6	51.90
	$\sum Y = 378.51$	$\sum x = 5$	$\sum x^2 = 85$	$\sum XY = 239.22$	

$$Since \sum x = 5$$

$$a = \frac{\sum Y}{N} = \frac{378.51}{10} = 37.85 \qquad b = \frac{\sum XY}{\sum x^2} = \frac{239.22}{85} = 2.81$$

Hence yc =a+bx

Trend Value for 2003-2004 = 37.85 +2.81 (-4)= 26.61

Trend Value for 2004-2005 = 37.85 +2.81 (-3)= 29.42

Trend value for 2005 – 2006 = 37.85 +2.81 (-2)= 32.23

Trend value for 2006- 2007 = 37.85 +2.81 (-1)= 35.04

Trend value for 2007-2008 = 37.85 +2.81 (0)= 37.85

Trend value for 2008- 2009 = 37.85 +2.81 (1)= 40.66

Trend value for 2009-2010 = 37.85 +2.81 (2)= 43.47

Trend value for 2010-2011 = 37.85 +2.81 (3)= 46.28

Trend value for 2011-2012 = 37.85 +2.81 (4)= 49.09

Trend value for 2012-2013 = 37.85 +2.81 (5)= 51.90

The table 1.4 presents the trend analysis of total NPA. The present trend value had an increasing trend from 26.61 Crores in 2003-2004 to 51.90 Crores in 20012-2013.The future trend value of Salem Urban Co-operative Bank is also discloses an increasing trend in future period.

Findings and Conclusions

Generally, the trend analysis over a period of ten years between 2003-2004 to 2012-2013 was quite high and encouraging for the four banks of TCUB, NCUB, ECUB, and SCUB, as it was 18.32, 72.65, 54.48 and 51.96 respectively. Thus in respect of all ten year trend value of NCUB, ECUB and SCUB had registered comparatively a higher and trend analysis than that of the TCUB.

It is high time Urban Co-operative Bank considerably developed its profitable business economy. The Tiruppur Co-operative Urban Bank has to assimilate modern management practices and adopt information technology and cost effective measuring while maintaining high standards. The success of Tiruppur Co-operative Urban Bank depends on the loyalty of the member based on commercial benefits according to them, and harmonious relationship between the members and the elected leaders. The major challenge for Tirupur Co-operative Urban Bank today is their capacity to integrate themselves with their national and global counterparts without sacrificing their own cultural ethos.

The Credit Co-operative System in Spain

Gemma Fajardo-García and Francisco Soler-Tormo

Abstract

Co-operative Banks in Spain have a long tradition, like in other European countries. Although some previous experiences, their origin dates from the early 20th Century, as institutions promoted by medium and small farmers to foster the access to banking services. However, they occupied a marginal position in the financial system till the legislative reforms in the 1970s. During the two last decades of the past century, the Spanish co-operative banks suffered a deep crisis, two changes in the organizational model, and the shock of transformation and innovation of the financial system. Now, the sector is formed by 74 small institutions, with a relatively small share of the market, just over 4% of total assets. The model of organization has been threatened by weak cohesion and a lack of behavior as true group. The financial crisis started in 2007 affected the Spanish co-operative banks less than other institutions, especially saving banks, because they held higher levels of capital and their retail oriented business. The more competitive environment could jeopardize the valuable principals which inspire the co-operative movement. The economic viability can and must be compatible with the democratic principle of "one member, one vote", with the enhancing the ownership participation, with the neighborhood and the localism, and the combination of social and financial objectives.

Key Words

Credit Co-operatives, Concentration, Crisis, Democratic Governance, Economic Viability, Restructuring, Spain

The establishment and evolution of the credit co-operative system in Spain

Although some credit unions were set up at the end of the 19th century, the Spanish credit co-operative movement can be considered to date from the early 20th century. It followed the French agricultural credit bank model and the basic ideas of Friedrich Wilhelm Raiffeisen, which spread thanks to the social doctrine of the Catholic Church. As in the rest of Europe, it was a collective response by small and medium-sized farmers to being sidelined by the big banks. The nascent co-operativism was given strong institutional backing by the 1906 Farmers Union Law (*Ley de Sindicatos Agrícolas*), which gave professional farming organisations important privileges in the form of tax exemptions and other advantages for rural credit co-operatives. This was the first law in Spain to regulate the mutualist principles and co-operative institutions.

The 1906 law encouraged the spread of farmers' unions and a large number of rural co-operative banks (*cajas rurales*): at the beginning of the 1920s there were around 5000.The model was based on setting up small local co-operative banks linked to the Catholic farmers' unions. Nevertheless, their poor ability to organise themselves as a group and develop a farm credit market condemned them to a marginal position within the Spanish financial system, dominated by the big banking status quo. However, during the 1960s and 1970s a number of factors roused the co-operative banks from their lethargy and triggered a stage of considerable growth. These factors included:

a) The beginning of reform in the Spanish financial system, which brought recognition of the rural co-operative banks as credit institutions and a start to harmonising the different monetary financial institutions. The Banking Regulation Law (*Ley de Ordenación Bancaria*) of 1962 expressly stated that;

   > *"all grades of rural co-operative banks shall be reorganised to strengthen their purposes at the service of agricultural credit. Without prejudice to the discipline to which they are subject at present, the Treasury Ministry shall exercise the inspection and control of the rural co-operative banks to ensure their compliance with their exclusive purposes and coordination with general credit policy."*

   In 1971 they came under the regulatory control of the Bank of Spain and their credit activities were regulated by the 1978 regulations.

b) A period of great economic growth and modernisation in agriculture increased the demand for farm credit. It was met in part by institutions such as the rural co-operative banks that were part of the fabric of the farming world and were particularly well-adapted to the peculiarities of agricultural loans. The slogan *el dinero del campo para el campo* (the countryside's money for the countryside) was a call to place available funds on deposit in the rural co-operative banks, where in part they would be returned to the sector in the form of credit and loans.

c) The development of farming was accompanied by the spread of association as a way to generate greater value added for the farmers. This led to a proliferation of farming co-operatives, particularly for marketing and processing agricultural products.

As a result of the spread of credit co-operatives, the sector as a whole organised itself around a central body, Caja Rural Nacional. This was set up in 1957 and acted as the interlocutor between government and the rural co-operative banks with more limited geographical scope. In turn, provincial rural co-operative banks formed through the conglomeration of smaller-scale ones became consolidated as the model throughout most of Spain. I n this way, local- or district-level co-operatives disappeared from most of the country except in the East and South, where, in response to their marginalisation by the central body, they created a separate, independent organisation of their own.

The 1970s also saw a proliferation of non-farming credit co-operatives in urban areas. As a result of the advantages offered for setting up co-operatives and the difficulties in establishing private banks, around 40 'urban' credit co-operatives were born during this period, linked to professional bodies or to co-operative company groups. Nevertheless, bad management in many cases and the deregulation of the banking sector led to the disappearance of practically half of these. The Mondragón group's *Caja Laboral Popular*, set up in 1959, deserves a special mention as an example of the dynamic role that a credit co-operative can play in the leadership of a group of industrial and commercial co-operative companies in the Basque country.

In response to the greater presence of credit Co-operatives, specific regulations were drawn up to govern them. Three major provisions of Royal Decree 2860/78 aimed to make these institutions take part in the transformation of the Spanish financial system: making the organic and functional characteristics of the different credit and savings institutions at the same time more homogenous and more flexible; establishing disciplinary rules to ensure their financial solidity; and making the governing bodies of financial institutions more democratic.

All these measures helped to increase the presence of the credit co-operatives in the financial system. Nevertheless, strong growth without the consolidation of sufficient reserves, the lack of professionalism in their management and the effects of an agricultural crisis halted their expansion and led to a number of serious problems that hindered their consolidation and cast the rural co-operative banks into deep crisis in the 1980s. As a result, around forty rural co-operative banks disappeared between 1984 and 1990, the disarray of their existing organisation led to the liquidation of *Caja Rural Nacional* and a new structure had to be created for this sector.

The crisis of the 1980s was influenced by the difficulties that the farming sector was going through and, above all, by managers who ignored the rules of prudence, concentrated risks without due control and operated in sectors where they did not have sufficient information or experience. This slack management was compounded by scanty observance of the co-operative principles as regards the openness of their relations with the members. The absence of external checks on the central organisations and poor group cohesion are further factors that made it difficult to prevent the crisis and to adopt appropriate measures to tackle it.

The resulting situation made it necessary for the authorities to intervene to re-establish confidence in these co-operative institutions and in the reorganisation of the sector. The reorganisation plans that were drawn up in 1984 provided for a series of measures to restructure the assets of the crisis-hit co-operative banks. At the same time, the co-ordination needs of the credit co-operatives were met by the creation of *Grupo Asociado BCA-CRA*, following the model of the French *Credit Agricole*. Although this Associated Group did not last long, it deserves at least some attention. On the one hand, *Banco de Crédito Agrícola* (BCA), a state-owned bank entrusted with channelling official credit to farming, assumed the leadership of the group and acted as its controller. On the other hand, the associated rural co-operative banks (*cajas rurales asociadas*-CRA) placed at its disposal a dense network of branches throughout Spain, channelled a large part of their cash to the public bank and submitted to certain directives from it. The new logotype created at that time to re-launch the group, the yellow ears of wheat on a green background, have remained as the symbol of the rural co-operative banks.

However, later developments showed up major cracks that led to the breakdown of the Associated Group in 1988, only four years after the agreement had been signed, as a result of the imbalance of power in the governing bodies, and the attitude of the authorities towards the disappearance of some rural co-operative banks. For instance, officials encouraged the absorption of rural co-operative banks by savings banks while *Banco de Crédito Agrícola* stood by and did nothing.

In view of this situation, the Spanish co-operative credit institutions looked for an alternative form of organisation. In 1990, they set up *Banco Co-operativo Español, S.A.* Its shareholders were the rural co-operative banks that voluntarily joined it and the German co-operative group *Deutsche Genossenschaftsbank (DG Bank).Banco Co-operativo Español* tries to provide banking services to its members which they would be unable to access individually owing to their small size and to take on the role of the central body of the rural co-operative banks group, using the rural co-operative banks' association (*Asociación Española de Cajas Rurales - AECR*) and specialist companies such as its IT and insurance arms (*Rural Informática* and *Rural Grupo Asegurador - RGA*).The result is a decentralised system with voluntary integration.

Since then, the consolidation of this model of organisation has been threatened by weak cohesion and a lack of behaviour as a true group, leading to significant pull-outs by some rural co-operative banks. This was the situation when the international financial crisis struck in 2007, although its effects on the Spanish credit co-operatives were relatively minor. Because of their smaller size, they were not as badly affected by the liquidity strains on the international markets, they had not taken extraordinary risks in large property developments and they kept their business close to what has been called since then as *back to basics*. As a result, they have not suffered major solvency problems, although the low general efficiency of the sector still needs to be remedied.

Consequently strong sector concentration is being encouraged, both by conventional mergers or through what are known as Institutional Protection Systems (SIP), in which the associated institutions retain a certain degree of management independence.

The current model

Governance and the mutual spirit: the reasons for the creation of co-operative banks

The Spanish credit co-operatives were set up to meet the financial needs of their members, who were united by a common bond. The rural co-operative banks were created to address the financial needs of farmers and farm co-operatives, essentially, and the professional credit co-operatives, which arose at a later date, were associated with professional bodies such as the official colleges of engineers, architects, pharmacists or lawyers. Apart from these cases, most credit co-operatives have resulted from mergers or reorganisation processes among other co-operatives.

Depending on how they were formed, the credit co-operatives can be classified into:

Rural co-operative banks set up by farmers and farmers' co-operatives to meet their financial needs

Local rural co-operative banks formed by splitting off the credit section of a farmers' co-operative

District, provincial or regional level rural co-operative banks, formed by the amalgamation of farmers' Co-operative credit sections and/or local rural co-operative banks or set up on the initiative of federations of farmers' co-operatives at these levels.

Credit co-operatives founded by professional bodies such as the official colleges of engineers, architects, pharmacists or lawyers. The only remaining ones of this type are those of the engineers and architects, as the others have changed their form or been absorbed by other credit institutions.

Credit co-operatives set up as the financial instrument of a co-operative company group in the industrial, commercial or service sector. This is the case of Mondragón's *Caja Laboral Popular* and of valencian *Caixa Popular*.

In every case, initially the founders and members of the credit co-operatives shared much the same background, but over time, as the co-operatives have grown and extended their membership to other more heterogeneous and urban groups, the common bond has weakened. The governance of credit co-operatives is shared between the membership (general meeting and board of directors) and the management. The co-operative principle of participatory democracy is reflected in the voting rights that every member possesses; in the principle of 'one member, one vote' in most credit co-operatives; and in the legal limits on the number of votes that may be cast by any one member (not more than 2.5% for an individual and 20% for a legal person) and by legal persons that are not co-operatives (not more than 50% in total).However, multiple voting rights, and even rights proportionate to capital, are possible in first and second tier co-operatives, and member participation in a general assembly is more restricted than in the case of bank shareholders.

Firstly, the General Meeting need only be convened 10 days before it is held, compared to a month for a bank. Secondly, if it is the Annual General Meeting it is advertised on the notice boards in the headquarters

Table 1. Historic data on number of banks, branches, employees and total assets of credit Co-operatives in Spain

	Number of institutions	% of banking system	Number of operative branches	% of banking system	Number of employees	% of banking system	Total Assets (10^6 €)	% of banking system
1945	29							
1950	41							
1960	58							
1970	169							
1980	155	42.8%	2668	10.3%	9731	4.0%	3,371	3.5%
1981	147	41.2%	2841	10.3%	10347	4.1%	4,241	3.6%
1982	154	40.7%	3048	10.3%	10866	4.3%	5,060	3.7%
1983	153	40.7%	3197	10.3%	10880	4.4%	5,801	3.7%
1984	149	40.4%	3315	10.4%	10896	4.5%	6,091	3.3%
1985	146	40.1%	3350	10.3%	10823	4.4%	7,352	3.6%
1986	138	38.9%	3388	10.4%	10225	4.2%	8,406	3.2%
1987	129	37.3%	3248	9.8%	10153	4.2%	9,439	3.2%
1988	117	35.0%	3029	9.0%	9674	4.0%	10,072	3.1%
1989	110	33.0%	2890	8.4%	9592	3.9%	10,839	2.8%
1990	107	32.7%	2919	8.3%	9968	4.0%	12,321	2.9%
1991	106	32.8%	3018	8.7%	10643	4.2%	14,154	3.0%
1992	101	31.7%	3080	8.7%	11016	4.4%	15,548	3.0%
1993	100	31.6%	3072	8.7%	11225	4.5%	17,938	2.9%
1994	99	31.3%	3107	8.7%	11195	4.5%	20,151	3.0%
1995	97	30.5%	3195	8.8%	11626	4.7%	23,399	3.2%
1996	97	31.0%	3311	8.9%	12024	5.0%	25,983	3.4%
1997	97	31.6%	3468	9.2%	12804	5.3%	28,551	3.5%
1998	97	32.3%	3607	9.3%	13292	5.5%	31,721	3.6%
1999	94	32.4%	3744	9.6%	13855	5.8%	34,811	3.6%
2000	92	32.7%	3888	10.0%	14495	6.1%	39,601	3.7%
2001	89	31.7%	4091	10.6%	15580	6.5%	46,069	3.9%
2002	85	30.9%	4275	11.1%	16414	6.9%	50,485	3.9%
2003	84	31.2%	4460	11.3%	17067	7.1%	56,162	3.9%
2004	83	31.2%	4563	11.3%	17650	7.3%	65,132	3.9%
2005	83	30.9%	4657	11.2%	18395	7.4%	82,180	4.0%
2006	83	30.5%	4771	11.0%	19382	7.6%	98,123	4.1%
2007	83	29.6%	4953	11.0%	20429	7.6%	110,765	3.9%
2008	81	28.3%	5097	11.2%	20940	7.7%	115,846	3.7%
2009	81	28.9%	5043	11.4%	20757	7.9%	122,933	3.9%
2010	80	29.0%	5018	11.7%	20545	8.0%	125,702	4.0%
2011	74	26.4%	4928	12.4%	20036	8.2%	126,891	4.0%

Source: Up to 1980, Martín Mesa (1988).From 1980, Bank of Spain.

and branches, whereas notices of bank general meetings have to be published in the Official Gazette of the Company Register and the bank's web page or, if it does not have one, in a newspaper with a province-wide circulation. In theory, credit co-operative members have fewer opportunities to discover that the meeting is being held and, above all, less time in which to examine the annual accounts and other documents that they will be asked to approve at the meeting.

In the larger co-operatives, preparatory meetings are often held locally in order to facilitate participation by their geographically scattered membership. However, it is not necessary to have held all the preparatory meetings before the meeting of delegates can take place, as 75% is sufficient, nor do all the delegates elected at the preparatory meetings need to be present, as the quorum for holding the meeting of delegates and for the agreements it adopts to be valid is 40%.Holding preparatory assemblies does not really make it easier for co-operative members to take part. Co-operative law has not yet provided for telematic attendance at meetings, as is allowed for commercial companies. Using the new information and communication technologies would undoubtedly facilitate democratic participation by credit co-operative members.

The data on member attendance and participation in the co-operatives' meetings could lead to the conclusion that there is a democratic deficit. However, it has been shown that when the members internalise the decisions as being important they mobilise, and they can even reject decisions that had been taken by the management and the board of directors, as has been seen recently on various occasions.

The general meeting elects the board of directors, which is normally made up of 12 members, mostly prominent members of the co-operative (68%) or directors of other associated co-operatives (20%); independent directors are infrequent (1.7%).The system by which the credit co-operative directors are elected makes it difficult for the members to take part democratically. Firstly, the directors are elected through closed lists. Secondly, candidacies can be presented by members of the board of directors or by members with high percentages of representation (5% of the members, 250 members or 25% of the share capital). Removal of credit co-operative directors is subject to more conditions than in the case of a bank director, and two-thirds of the votes are required to hold them to account, compared to the simple majority that is required in a bank.

Although the general manager of a credit co-operative is not an organ of the co-operative but an employee, he or she is subject to conditions as regards incompatibilities, prohibitions and limitations in the performance of his or her functions that are similar to those for the directors. The general manager's powers are essentially concerned with the management and administration of the business, but include convening the board of directors and deciding on transactions with third parties, a decision which in other types of co-operatives lies with the members and must be allowed by the articles of association.

In recent years the credit co-operatives have made great efforts to improve the qualifications and professionalism of their managers, but some shortcomings are still apparent. The long service of the managers, around 20 years, gives an indication of their considerable independence from the governing bodies.

Information on both the directors and the general managers of credit Co-operatives must be recorded in the Bank of Spain's Register of Senior Officers (*Registro de Altos Cargos*).

The bank's activities with members and non-members

The corporate object of Spanish credit co-operatives is to serve the financial needs of their members and others by pursuing the activities proper to credit institutions (Article 1 of the 1989 Credit Co-operatives Law).Consequently, they operate with their members for preference but can engage in credit operations with non-members with up to 50% of their total assets (not including operations with members of member co-operatives, the investment of spare cash or the purchase of shares).

In practice, the credit co-operatives have universalised their clientele far beyond their agricultural origins by accepting new customers in two main ways: accepting them directly as members through a small contribution to the share capital (normally €60) or accepting members of an associated co-operative (agricultural, industrial or, less frequently, service or retail, in which case the initial contribution tends to be even smaller).In this way, the membership of Spanish credit co-operatives, around 2 million, approximately matches the number of customers involved in loan operations. This is because the credit Co-operatives usually make membership one of the conditions for granting a credit or loan. However, the clientele of the co-operative banks as deposit takers is over 10 million, as their customers include their members' families, among others. Lastly, it should be pointed out that in their business activities, the credit co-operatives do not normally make a distinction in the treatment of their member and non-member customers.

Other services.

Credit co-operatives are considered credit establishments (Royal Decree 1298/1986) and may engage in all the types of lending, borrowing and service operations that other credit institutions are permitted to undertake, laid out in Directive 2006/48/EC (article 3 of the credit Co-operatives law).Those that require a certain scale are normally provided by the central organisations (*Banco Co-operativo Español* or its specialist companies).

Credit institutions are also allowed to compete with stock broking companies, so the credit co-operatives can operate directly on the stock exchange. Grupo Caja Rural has an on-line stockbroking service, RuralBols@, which can undertake all types of stock market operations and also provides information to help its customers to optimise their stock market investments.

However, the co-operative credit institutions account for a relatively small proportion of stock or securities market issues, both because of their relatively small individual size and because they have less need of wholesale capital market funding. The members' contributions to the share capital of the Co-operatives cannot be traded on the Spanish stock market and their issues of quoted securities are very small: between subordinate bonds, securitised assets and mortgage debentures, they make up no more than 1% of the total securities issued by credit institutions.

Other products and services that the credit Co-operatives normally offer in addition to traditional banking and stock broking include on-line banking, credit and debit cards, mutual funds, the *Telepeaje* toll tag system, renting, insurance, pension plans, a property portal or ticket sales for shows, exhibitions, sporting events, etc.

The relation between local, regional and central banks

The Spanish financial system is currently undergoing an extraordinary transformation and the credit co-operatives are no exception in this respect. All the credit co-operatives belong to the National Union of Credit Co-operatives (*Unión Nacional de Co-operativas de Crédito*), which advises its members and publishes the most important information on its sector. Most of them also belong to the Spanish Association of Rural Co-operative Banks (*Asociación Española de Cajas Rurales*) and form the *Grupo Caja Rural*, which is headed by *Banco Co-operativo Español, S.A.* This bank provides financial services to its associates and is complemented by other companies in the group such as the IT company *Rural Servicios Informáticos*, the fund manager *GesCo-operativo*, the insurance company *Seguros RGA*, or the property company *Rural Inmobiliaria*.The German co-operative groups *DZ Bank* (formed by the acquisiton of GZ Bank by DG Bank in 2001) and *R+V Insurance* have holdings in all of these. This setup follows a federated bank model inspired by decentralisation, subsidiaries, solidarity, co-operation and territoriality.

Despite having been set up in the 1990s, the *Grupo Caja Rural* structure is not completely consolidated. *Caja Laboral Popular*, associated with the Mondragón co-operative group, has always remained aloof and the largest of the originally rural co-operative banks, *Cajas rurales unidas (CRU)* group, the fusion of *Cajamar* and *Ruralcaja*, split off because of management disagreements.

The Bank of Spain's aim to set up a single Institutional Protection System under the umbrella of *Banco Co-operativo Español* has not so far come into being and the direction that the group is taking at the moment is to consolidate a number of regional co-operative groups with relatively weak links to the central organisation. As a result, totally independent local, district and regional institutions currently coexist, although the smaller ones are likely to join higher-tier co-operatives, whether by being absorbed or with certain degree of autonomy, constituting a hybrid system.

The minimum capital for the establishment and functioning of a co-operative bank

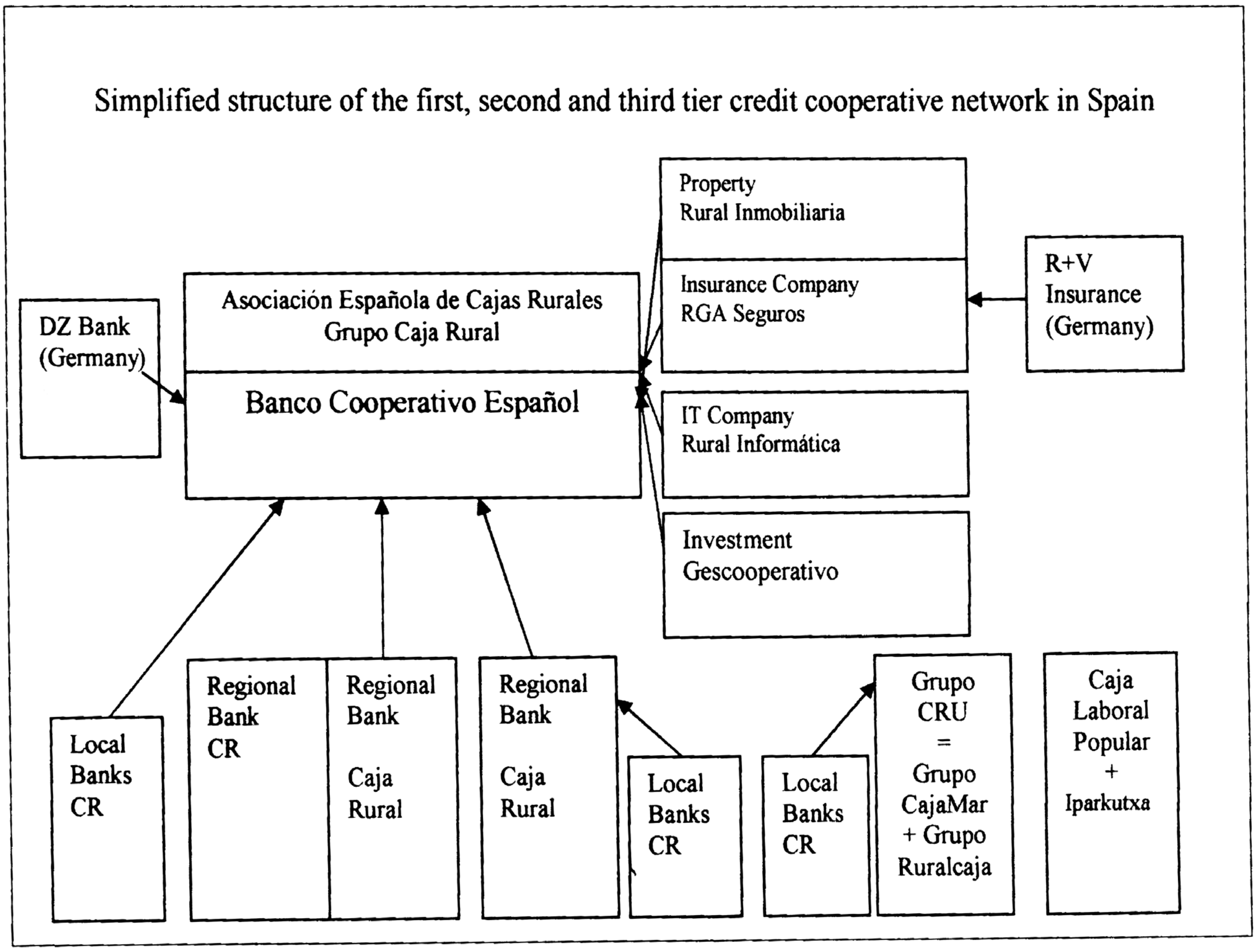
Spanish law, in application of European directives, demands certain minimum levels of capital, fully subscribed and paid up, in order to engage in banking activities. The general level of €5 million can be lower when the institution only operates in a limited sphere. For instance, the minimum for credit co-operatives that operate in municipalities with 100,000 or fewer inhabitants is €1.05 million of equity, while for a sphere not exceeding the autonomous region the minimum is €3.6 million and if it exceed this sphere, €4.8 million.

The credit co-operatives are also subject to the Spanish solvency regulations (Royal Decree 216/2008) pursuant to the Basle II accords and European Directives 2006/48/EC and 2006/49/EC as amended by 2009/27/EC and 2009/83/EC as well as 2009/11/EC. Since the financial crisis, increased emphasis has been placed on monitoring compliance with the equity requirements in relation to risky assets. In general, the Spanish credit Co-operatives show greater ease in meeting the 8% minimum requirement and the instruments that make up their equity are also of better quality.In fact, Spanish co-operative banks typically hold around 2 to 2.5% more capital than commercial or savings banks. Moreover, tier 1 common equity or core capital (common equity and reserves) make up 88% of the total equity of the credit Co-operatives, compared to 73% for the banks and savings banks. The excess solvency of the Spanish credit co-operatives is largely due to their policy of retaining between 65% and 80% of their annual profits.

The guarantees system in co-operative banks

The credit co-operatives, like other credit establishments, are subject to a complex system of guarantees to ensure their liquidity and solvency, over and above the capital requirements referred to in the previous section.

On the one hand, they are governed by a special administrative supervision system (Law 26/1988 for individual institutions and Law 5/2005 for financial conglomerates).On the other hand, like the banks and savings banks before them, the credit co-operatives have had to set up a specific deposit guarantee fund (required by Royal Decree Law 18/1982) to guarantee the deposits placed with these institutions and the restructuring and refloating of credit institutions in difficulties. This fund is made up of contributions from the credit co-operatives, though the Bank of Spain is also authorised to make payments into it (Royal Decree 2606/1996). The Spanish credit institutions' deposit guarantee funds are governed by the rules of the Directive 2009/14/EC.



If a credit co-operative or any other credit institution becomes insolvent, the respective fund can offer financial assistance such as non-refundable grants, guarantees, loans on favourable terms, subordinate financing, or the acquisition of damaged or unprofitable assets; it can also help to restructure the institution's capital by subscribing capital increases. In addition, *Grupo Caja Rural* has voluntarily set up a Solidarity Fund to forestall and, if necessary, solve insolvency or statutory equity cover requirement situations among its members. This fund is in addition to the Banking Deposit Guarantee Fund.

To address the 2008 crisis, the Spanish government took extraordinary measures which included setting up the Fund for Orderly Bank Restructuring (Fondo de Reestructuración Ordenada Bancaria - FROB) through Royal Decree Law 9/2009.The purpose of this fund is to manage credit institution reorganization processes and help to reinforce their equity. he fund can be employed to restructure institutions with weaknesses in their economic and financial situation, and also to reinforce the equity of institutions without any weaknesses or solvency problems.

Should a credit co-operative undergo a banking reorganization process, the FROB could contribute to its funds by subscribing or acquiring contributions to its capital. However, as already mentioned, so far the credit co-operatives have not presented solvency problems and have not been involved in restructuring processes for this reason. What they are engaged in, however, are integration processes to increase their size. This integration can take place through mergers, general assignment of assets and liabilities, the creation of second-tier Co-operatives or co-operative groups, or Institutional Protection Systems (SIP).At all events, the measures introduced by the government to confront this crisis are available to the credit co-operatives just as they are to the other credit institutions.

A peculiarity of the Spanish system is that while the supervision of the credit institutions' solvency falls to the Bank of Spain, the Autonomous Communities (regions) also possess prudential supervision powers, co-operating with the Bank of Spain in this respect.

Profit distribution in credit co-operatives

Spanish credit co-operatives differ widely in their distribution of surpluses. Once the balance has been determined, including the proceeds of lending with non members, and capital gains or extraordinary income of all kinds, the losses from previous years, tax liabilities and interest on paid-up capital are deducted.

Interest may be paid on the capital contributed by members if this is allowed by the co-operative's articles. Such returns are limited to a rate no higher than 6 points above the statutory rate of interest and conditional on the co-operative's meeting the solvency ratios and minimum equity requirements and on there being no losses carried over. They may not be counted as operating costs or expenses.

Out of any available surplus, at least 20% must be assigned to provisioning the statutory reserve fund and at least 10% to the education and promotion fund (this provision is tax-deductible up to a maximum of 30%). Both of these funds are non-distributable except in the event of the co-operative's changing its form and the latter is also not attachable (with the exception of the immovable property of the co-operative).

The data from the years previous to the financial crisis give a general picture of the accounting profit's being distributed to taxes (around 15%), interest on capital contributions (10%) when allowed, and the remaining 75% constituting the available surplus. The available surplus is mainly assigned to statutory and voluntary reserves (80%), the education and promotion fund (12%) and dividends to co-operative members and other purposes (8%).

Tax policy for the credit co-operative system

Like other co-operatives, credit co-operatives are subject to a special tax system under the Co-operative Tax Regime Law (Law 20/1990) and, in the Basque Country, the region's autonomous rules (*normas forales*), and by Decree 1345/1992 which regulates the tax on the consolidated profits of Co-operative society groups.

Under Law 20/1990, the profits obtained by credit co-operatives in the course of their ordinary activities are liable to company tax at 26% and their extraordinary profits to the general rate of 35%.The Basque country's tax legislation generally applies lower company tax rates. As a result, credit co-operatives pay company tax on all their profits at 28%, but since the general rate has come down to 28%, reduction to 24% or 25% is expected shortly (Rodrigo Ruiz, 2008: 479).

Credit co-operatives enjoy other tax benefits under Spanish and Basque law, such as in capital transfer tax and stamp duty on acts of establishment, capital increase, merger, split, award and cancellation of loans, and acquisition of goods and rights for the education and promotion fund, and in economic activities tax (95% tax relief).

Credit co-operatives mainly act as deposit-takers

Because of their size and operative limitations, the credit co-operatives have traditionally behaved mainly as deposit-takers in a system in which the private commercial banks obtained inter-bank funding from the saving banks and the credit Co-operatives.

This situation changed considerably with the extraordinary expansion of credit between 2001 and 2007, when the credit extended to resident sectors of the Spanish economy grew far more than deposits. Under these circumstances, the resident private sector deposit-to-loan ratio of the co-operative banks fell from 119% in the year 2000 to 94% in 2010; the ratios for the banking system as a whole were respectively 93% and 80%.As a result, credit co-operatives have been relatively well-insulated from the liquidity problems that the Spanish banking system has experienced during the financial crisis.

Margins and interest rate policy

Because of their retail banking orientation and dense network of branches, particularly in places that other credit institutions do not reach, the profit and loss accounts of Spanish credit co-operatives present certain peculiarities. On the one hand, credit co-operatives obtain higher interest margins than banks and savings bank, but on the other hand, their operating costs are higher. As a result, their pre-tax profits (measured as a percentage of average total assets) are slightly lower than the average for the financial system as a whole. These high operating costs and consequently lower efficiency are one of the main weaknesses of the Spanish credit co-operatives in view of the likelihood of a more competitive future.

The importance of credit Co-operatives in the national banking market

The co-operative credit system in Spain has a relatively low market share: around 4% of the total assets of the banking system at the end of 2010. Nevertheless, in recent years its relative weight has increased, although moderately, following a slight decline during the years when the property boom was at its height.

The growth of credit co-operative branches has been greater than in the banking system overall, reaching 11.7% of the total in 2010.This share is considerably higher in rural areas, where the credit co-operatives play an important role in the financial integration of districts that are neglected by other intermediaries. Thanks to this network, they take around 6.5% of resident private sector deposits, although this percentage varies widely in different parts of Spain. The co-operatives take more than 15% of the deposits in Navarre, the Basque Country, Castile-La Mancha, Andalusia and Murcia, but under 2% in Madrid, Catalonia and Galicia. In spite of the progress that has been made, the branch network of most co-operative banks in Spain is weak in the main cities and in tourist and commercial areas.

The proportion of deposits in the private sector is higher in relative terms than those of loans and total assets. This is the result of the retail banking character of the credit co-operatives, close to the customer and possessing a dense network of branches. Their lower unit size and links with the geographical areas in which they operate lead to a relatively greater weighting of funding to agriculture and to families. In spite of having diversified their credit operations in recent decades, because their origins lie in rural areas the Spanish credit co-operatives assign a significantly higher proportion of their loans to funding farmers and stock breeders. Around 12% of the co-operative banks' loans for productive activities go to the primary sector, compared to 2% for the banking system as a whole. Equally, the credit co-operatives' presence in the retail banking sector leads to greater specialisation in funding housing purchases by families, which make up 43% of their total loans compared to 35% for the banking system in general.

The changes in the business model have affected their financial performance. Spanish credit co-operatives base their resources on traditional deposit-taking. As mentioned above, their strong local orientation and neighbourhood bank character has allowed them to obtain higher financial margins than the rest of the banking system. Because of this, despite their efficiency problems they have presented higher return on assets (ROA) rates than the banks and savings banks. Nevertheless, because their equity is significantly greater, their return on equity (ROE) ratios have been slightly lower.

The current international financial crisis has affected the Spanish credit co-operatives to a significant degree, as the squeeze on their profit margins has increased and so have bad debts. However, Spanish credit co-operatives are generally encountering fewer problems than other banking institutions, owing to a series of circumstances.

Firstly, while they did take part in the excessive growth of credit in the years running up to the crisis, their expansion slowed during the years of maximum euphoria, when they lost market share (Table 1) to larger institutions that inflated the bubble by resorting to wholesale funding markets. Consequently, the barrier of their smaller size urged them to greater prudence and their comparative disadvantage in accessing international financial markets provided relative isolation from the credit euphoria.

Secondly, the initial impact of the crisis, between 2007 and 2009, was essentially financial and essentially affected international liquidity, so its impact on Spanish institutions, particularly co-operatives, was not very strong. However, from 2009 onwards the crisis affected the real economy badly, severely accentuating the basic imbalance. It was at that point that it hit the Spanish banks' balance sheets hard, through a combination of greater bad debt levels and an accumulation of devalued assets in Spain's heavily indebted economy. As a result, equity was eroded and confidence was lost.

Paradoxically, the traditional co-operative weaknesses have become an advantage. Their retail activity, their little size, their localism, and their managers' retribution limitations have isolated them from the crisis' threats. To avoid insolvencies, in June 2009 the Bank of Spain set up the above-mentioned Fund for Orderly Bank Restructuring (FROB) to help any bank in difficulties, encourage their integration, adjust oversized branch networks and ensure healthy balance sheets. The assessments and stress tests that have been carried out have proved satisfactory for the credit co-operatives, unlike some other institutions, no Spanish credit co-operative has needed recapitalisation and their solvency levels are more than adequate. Despite this, the Bank of Spain is persistently calling for sector concentration, not so much on the grounds of solvency problems as of reasons of size and efficiency. In fact, their efficiency ratio, defined as operating costs in relation to financial products, was 43.5% in 2010 compared to 38% for the system as a whole.

Nonetheless, strong concentration is indeed taking place among credit co-operatives, both through conventional mergers and through Institutional Protection Systems (SIPs), as defined by European directives.

The future of the system

In these times of change it is difficult to forecast the definitive future shape of the co-operative credit system in Spain, although a few possibilities may be ventured:

The number of institutions will be considerably smaller, as they will unite with other co-operatives or join institutional groups. As a result, the major references in credit co-operatives will be *Caja Laboral Popular*, which has a strong base in the North, *Cajas Rurales Unidas* group, which will be joined by other smaller institutions and consolidate into the largest Spanish rural co-operative bank, and all the other co-operatives, which will organise more or less cohesively in a two or three-tier pyramid structure.

If the savings banks (which have suffered the crisis more intensely) lose part of their social and local/regional character, as seems likely, the credit co-operatives can reinforce their neighbourhood bank philosophy, based on the co-operative identity, identified with the area where they operate, and supporting the social economy of which they are a part.

Their greater solvency and moderation during the 'bubble' has made the Spanish credit co-operatives more crisis-resistant. In principle, this could encourage greater growth than among other financial institutions. However, the predicted lengthy period of sluggish banking credit operations and adjustment in the real economy would indicate that any progress that is made will be modest and limited by branch network and staffing level resizing to improve efficiency.

The main weaknesses of the Spanish credit co-operatives are their high operating costs and their efficiency ratios. Greater integration could help to overcome these drawbacks and provide economies of scale that would allow them to undertake all types of banking business.

At all events, the search for solutions in a changing climate could lead to redefining the structure of the co-operative credit system. Progress in the direction of greater integration and global cohesion would be desirable even if a two- or three-tier structure were retained.

Table 2.Interest margin and pre-tax profits as a percentage of average total assets				
	2005	2007	2010	2011
Interest margin				
- Private banks	1.04	0.98	1.10	1.02
- Savings banks	1.64	1.51	1.12	-
- Credit co-operatives	2.31	2.30	1.56	1.48
Pre-tax profits				
- Private banks	0.91	1.13	0.50	-0.02
- Savings banks	0.80	1.15	0.13	-
- Credit co-operatives	1.07	0.97	0.28	0.19

Source: Bank of Spain

Table 3. Share of the credit Co-operative system in the Spanish banking market		
	2000	2010
Branches	10.0	11.7
Employees	6.1	8.0
Total Assets	3.7	4.0
Liabilities. Resident private sector	7.3	6.4
Lending. Resident private sector	4.9	5.4
Lending. Agriculture	26.7	21.5
Lending. Industry	3.4	4.6
Lending. Construction	2.8	3.6
Lending. Households	5.4	6.6

Source: Bank of Spain.

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Freedom to Set Up Enterprises as the Basis for Economic Development: The Case of the Kenyan Co-operative Movement

Esther Njoki Gicheru

Abstract

Co-operatives in Africa have gone through many decades of struggle for autonomy and independence, in both colonial and post-colonial governments. It is only now that in Kenya we find co-operatives getting focused to the members, and understanding the importance of member relations but much more work needs to be done in terms of co-operative values and principles to ensure reasserting of the co-operative advantage. The safest approach is to change the culture and values of the managers and leaders of co-operatives to ensure that the content as well as the form of co-operative values, processes and purposes match the needs of and are communicated to all stakeholders. The paper concludes that co-operative enterprises need to respond to the intensification of competition as the globalization of economies and markets continues. One key part of the co-operative response must be in terms of developing a global market presence.

Key Words

Autonomy, Co-operatives, Government, Management, Keyna

Introduction: the case for co-operative autonomy

Co-operative enterprises in around the world, and particularly in Africa, have had a rugged development history but have shown great resilience and made tremendous contribution to the socio-economic development. Although the initial stages were dominated by paternalistic government promotion and protection, Co-operatives in Africa, and more so in Kenya, have emerged as important enterprises that serve the economic, social needs of their members and their broader communities. Co-operatives in Kenya have gradually gained more space in terms of freedom to set up enterprises and are currently represented in virtually all sectors of the national economy and are key players in the global Co-operative Movement at number 7 in terms of number of Co-operative enterprises, their membership, capital base and contribution to GDP (ICA, 2008).

On 11th February 2010 the United Nations General Assembly proclaimed 2012 as the International Year of Co-operatives via resolution 64/136 at its 64th session stating that it recognizes the important contribution of Co-operatives enterprises as becoming a major factor of economic and social development and contribute to eradication of poverty because they promote the fullest possible participation of all people, including women, youth, older persons, persons with disabilities and indigenous peoples (www.ungas.org). The global Co-operative Movement is celebrating the International Year of Co-operatives under the theme that Co-operative enterprises build a better world to underscore their resilience to crisis over other forms of enterprises (Birchall, et al. 2009). This study reveals during financial crisis financial Co-operatives remained financially sound, agricultural co-operatives continued to show surplus, consumer co-operatives continued to report increased surplus, workers co-operatives saw growth and that people are increasingly choosing the Co-operative form of enterprise to respond to the new economic realities.

ILO (2009) argues that Co-operatives must occupy key space in the world because they play productive and protective roles as economic enterprises and self-help organizations rooted in communities and founded on values of solidarity and inclusion, they can help bring needed balance between economic, social and environmental pillars of strategies for sustainable development.

It has been argued that Co-operatives are member-owned, democratically-controlled owner-user enterprises whose role is to cater for the social and economic needs of society that the state, the private sector, big capitalist enterprises and small family businesses may not be able to satisfy. Co-operators believe that it is possible to change the world socio-economic order by using Co-operatives to build good society guided by mutual co-operation, not competition;

motivated by need to build moral character, not profits; creating human dignity, not wealth. The primary purpose of a Co-operative is to satisfy the social and economic needs of its members. On the other hand, the primary purpose of a trading company is to maximize profits for its shareholders. However, co-operators recognize that successful organization and management of Co-operative enterprises must combine the desirable approaches of other enterprises such as the service spirit of the state, the efficiency of the capitalist enterprises, the entrepreneurial culture and independence of the private sector, and the proximity and social touch of family business.

Research by ICA (2008) reveals that the top global 300 Co-operatives alone are responsible for an aggregate turnover of 1.1 trillion USD, which represents the size of the 10th largest economy, employ over 100 million people (more than multinational corporations) and contribute to increased agricultural productivity, expanded access to financial services and critical socio-economic development. The study also revealed that, besides their major contribution to household incomes and social stability, co-operatives make a significant contribution to national economies including around 45% of GDP in Kenya and 9% in Vietnam.

About a decade ago, the World Bank acknowledged the development potential of co-operatives provided that they were restructured and disentangled from the state, and run on business principles in line with the market economy (Donge, 2011).

Like in many countries across Africa, in Namibia the co-operative movement is contributing to the well being of many people, especially in rural areas where co-operatives have been established in the sectors of livestock marketing, seed production, savings and credit, arts and craft, indigenous plants processing, tourism and small scale mining (Pohamba, 2011).

Freedom to set up enterprises refers to the potential for individuals to establish business entities without undue hindrances of policies, legislations and regulations. In Kenya there is widespread freedom to set up enterprises especially in the informal economy and Co-operatives in particular.

The report of the World Commission on the Social Dimensions of Globalization recognizes that the process of globalization requires a strong social dimension based on universally shared values, and respect for human rights, individual dignity; one that is fair, inclusive, democratically governed and provides opportunities and tangible benefits for all countries and people (www.ilo.org/wcsdg).

The challenges to Co-operative and National Autonomy from Globalisation

Globalization, driven by the political ideology of liberal free market capitalism has led to increased concentration of global capital based business in virtually every sector of economic activity. This has resulted in a global shift of income distribution from wages to corporate profits. The overall conclusion on the impact of Trans National Corporations (TNCs) on the host country is that "- overall dominance by foreign firms is almost certainly undesirable from the host country viewpoint." (Dicken, 2007, p472) Africa is again finding itself being denuded of raw materials not this time by colonial powers but to feed the exponential growth of the emerging Far Eastern economies which in turn are providing cheap consumer goods for the North American and European economies. The political cultures of Africa have yet to find an effective response that defends African interests and ensures infrastructure developments and wealth creation opportunities that will advance the poor. In these circumstances liberalization that genuinely empowers co-operatives as well as private foreign corporations may well be the most effective response for African governments to adopt.

Formal co-operative enterprises were introduced to Africa by colonial governments for three main purposes; to increase cash crop production to provide raw materials in home countries, levy tax and control economic activities, and protect settler farmers against exploitation from money-lenders and traders. Co-operative organizations and development agencies had placed considerable emphasis on the development of Co-operatives in Africa.

In the former British Colonies, co-operatives were created in the early 1930s according to the British – Indian pattern of co-operation and accompanied by a special co-operative Act and the establishment of an implementing agency i.e. the Registrar of Co-operatives or Commissioner for Co-operative Development. Later, the Colonial administration undertook systematic efforts to develop co-operatives into powerful business ventures that, through a vertical structure, controlled much of agricultural production, marketing and processing in rural areas. During colonial period, co-operative enterprise owned by settler community was economic, as co-operatives operated in a free market and did not involve direct government control.

Under colonialism co-operatives were seen as intermediate form between the traditional, subsistence-based economies of the pre-colonial societies and the modern market economies of the West. They had also had the advantage, for the colonial administrators, of being economic rather than political organizations that did not threaten colonial rule.

After independence, most governments of sub Saharan Africa laid much emphasis on co-operative development in the agricultural sector. This led to an "efficient", state-controlled co-operative movement that did not meet members' needs, but became a heavy burden on state budget. Genuine co-operatives developed only outside the agricultural sector, where many of them achieved remarkable progress. The Co-operative Societies' legislations did not allow much freedom and were confined to industrial crops for export. Traditional subsistence crops were not given much attention. Once the native Africans were allowed to form them, Co-operatives faced more and more control. Indeed the colonial and independence governments were suspicious of widespread group action because of the political responsibilities they take in lobbying and advocacy. The role of co-operatives in economic development was thus minimized, as it suffered four limitations of low member control, inadequate access to credit, poor transport and communication facilities and a very unfriendly tax regime whose overall effect was to stagnate efforts of enterprise development.

Structural Adjustment Programmes (SAPs)

The state controlled "co-operatives" were severely affected by the structural adjustment programmes (SAPs) that many African states adopted in the 1980s and by the democratic reforms of the 1990s. The "co-operatives" lost protection and support while their members became more aware about their democratic rights. This resulted in a sharp decline in the number and turnover of state- sponsored co-operatives and emergence of a multitude of grass-root initiatives.

The Case of Kenya: The role of Government in Co-operative Development

In Kenya, as in other parts of Africa, co-operatives were sponsored, nurtured and developed by governments – in the colonial as indeed in the post independence era. Support to co-operatives emanated not only from government but also from other well meaning co-operative development agencies. The motive for promoting co-operatives may have differed between that of the colonial regime and that of the national government, but there were three striking commonalties in their approach to co-operative development: (a) Government intentions with regard to co-operative development did not always coincide with those of co-operative members (b) there was strong government control of co-operatives which often compromised the democratic rights and privileges of members, and (c) Government policies and laws relating to co-operatives were designed to entrench state control and benefit.

The application of the metaphor of the "carrot and the stick" would imply that the carrot was offered in the form of government support, protection, privileges and concessions extended to co-operatives, particularly so in the post independence period. On the other hand, the stick was in form of a legal framework that gave government unfettered control of co-operative governance and management. Support came in the form of free government technical advice on governance and management, audit services, education and training, arbitration and general guidance. Co-operatives were protected from competition by being granted complete monopoly in the collection and marketing of major cash crops; privileges and concessions in the form of special grants, "soft" loans and tax relief. The role of the state in the Co-operative Act of 1966 thus was four-fold:- to promote co-operatives, register, regulate or control them, and generally getting involved in their day to day management. Such roles resulted in many cases in many co-operative officials being removed from office and replaced by Management Commissions at the pleasure of the Commissioner for Co-operative Development. Worse still was the fact that the people appointed into these commissions were District Commissioners and others from the general public administration, most of whom lacked knowledge and skills in co-operative matters. Their performance was, to say the least, wanting in most instances and suspect to most members who felt disenfranchised.

Insulated as they were, one would say that Co-operatives became "spoiled" over the decades as they increasingly depended on and basked in the complacency of external support and protection. Focus on competence, efficiency, business acumen, entrepreneurship, initiative, self sustenance, transparency and accountability to members – all of them constituting some of the conditions necessary for genuine and successful co-operative development

– became marred as co-operatives continued to be protected, controlled and manipulated.

At independence in 1963 the Government embarked on what it called Africanization of the economy whose major policy thrust was contained in the Sessional Paper No. 10 of 1965 which advocated for principles akin to those adopted by the co-operative movement.

These included individual freedom, freedom from want, disease and ignorance and exploitation, equitable sharing in its benefits, expansion and the integration of economy. To achieve these objectives, certain strategies were adopted among which creation of income generating opportunities, control of population growth through family life education, health care and water supply and provision of an enabling environment through relevant policy changes to enable the private sector to play a leading role in the economic development of the country.

Co-operatives were thus considered suitable vehicles with an appropriate framework to achieve the aspirations of the majority of Kenyans in participating in economic development. This led to the enactment of the Co-operative Societies Act (Cap. 490) Laws of Kenya in 1966. The implication of these developments were that the government would use co-operatives as vehicles to achieve its socio-economic development agenda.

The basic values of co-operation, equity, equality and mutual self-help which give the development of national co-operative structuring a unique character were not applied. If co-operative societies are seen from the perspective of basic co-operative values they have to be perceived as self reliant, self-help organizations, owned, managed and controlled democratically by their members. This was not the case as the state was very keen to control co-operatives to facilitate its development initiatives. This phenomenon was particularly in the agricultural sector. Indeed the degree of freedom from government control differed between varied sectors. For example the financial services sector at work places has had more degrees of freedom than agricultural marketing co-operatives. It is also true that industrial co-operatives as well as women groups have also had more degrees of freedom as compared to agricultural marketing.

These differences existed within the co-operative movement irrespective of the same instruments of policy and legislation. For example where co-operatives touch at the heart of the economy, there were always more controls than where co-operatives are in a less important sector of the national economy. Within the less important sector there will be more freedom of enterprise development. Sadly, the overwhelming interference of political and administrative authorities in the management of co-operatives set up haphazardly soon generated a feeling of indifference among the very population supposed to constitute the membership of such co-operatives, particularly so in the agricultural sector.

On the other hand the Savings and Credit Co-operatives (SACCOs) give a good example of genuine co-operative work with strict member orientation, the requirement of a common bond uniting the group of members, self sufficiency in raising the required capital and strong emphasis on membership and leadership training.

For co-operative members to benefit from the co-operative action, there has to be freedom of choice of association and enterprise development. Such association should be spontaneous. Suffice to say, Co-operative societies are about the co-operation of individuals. This co-operation must be beneficial to each individual in such a way that it must meet the needs and aspirations of the individual. These needs may not be static; they may evolve and change with time. It is important to identify what these needs are and their evolving nature so as to be able to predict or anticipate changes in needs and aspiration of members in order to appropriately modify conditions of co-operation.

Thus, both in the colonial and post independence period, members of co-operatives were hardly ever prepared to chart their own destiny. The post-independence government in Kenya became convinced that co-operatives provided the most suitable and ready means of involving large masses in economic and social development. In addition to mainstreaming the masses in economic and social development, co-operatives were seen as ways to assure the supply of selected produce, to implement indigenisation schemes, to organize distribution, carry out land reforms and generally create development. The reason for identifying co-operatives as one of the vehicles for socio-economic development was that Co-operatives were considered to have direct roots in African traditions and their extensive use in the monetary sector of the economy would ensure greater discipline and training than it had been necessary before. It was also believed that those who share in the tasks of co-operatives or who use its services share also in its benefits as the co-operative belong to them.

By the 1970s, there were great disappointments for the agricultural co-operatives. Voluntarism almost was dead; co-operatives relied too much on governmental guidance; members were compelled to deal with only certain co-operatives and the government introduced laws that only helped to entrench itself in the daily affairs of co-operatives.

Scholars *(Munkner and Shah, 1993)* note that the co-operatives that emerged during this period were characterized by the following eight features: (i) total dependence on state patronage and support (ii) not able to develop own managerial competencies and over reliance on government (iii) responsibilities which should otherwise have been shouldered by co-operatives were taken over by the state (iv) committee members became rubber stamps and implementers of government policies thus hampering creativity and entrepreneurship (v) co-operators (members) who thought of co-operatives as mere extensions of government as opposed to their own private self-help organizations (vi) Co-operatives failed to enlist people as active members and to give them full benefits of membership (vii) corruption became rampant in co-operatives, and (viii) Co-operatives faced many delays caused by the cumbersome bureaucratic procedures in the government, a situation that demoralized members further.

Where is Kenya now? The Current Co-operative Development Policy

The Kenyan economy is heavily dependent on the co-operative sector. Government (Nyaga, 2011) indicate that Kenya has over 14,000 Co-operative enterprises and organizations owned by around 10 million members, with a capital base of approximately 300 billion Kenya Shillings (USD 4 billion) and employing over 300,000 people. The contribution of co-operatives to the GDP is estimated to be 45 per cent while, on national savings and deposits, the contribution is 31 per cent. These statistics show that 8 out of 10 people in Kenya benefit directly or indirectly from Co-operatives as member-owners, employees, elected leaders, dependants of co-operators and operators of secondary services that are used by Co-operatives.

Co-operative enterprises and the co-operative movement appear set to grow even more because people are venturing in new areas as the old c-operatives continue to become more innovative. SACCOs are opening front office services (banking services), offering new products such as money transfer and automated teller machines (ATMs), expanding their membership common bond to increase membership and offering trading business activities such as constructing rental buildings and shopping malls. Transport Co-operatives are now operating garages, petrol stations and insurance agencies closer to their customers and communities. Most dairy co-operatives are cooling their milk, packaging and processing to make diverse dairy products such as yoghurt, cheese and butter. Co-operative unions are no longer depending only on affiliation fees from their members but are venturing into income generating activities such as manufacture of animal feeds, maize meal and transport business for their members and the public. Whereas this trend is bound to broaden clientele increase revenue base, there is need to carry out research to find out its effect on the co-operative spirit and quality of service delivery to members.

Pointing out that co-operatives are special and unique business enterprises, Kobia (2012) identifies Co-operative Insurance Company (CIC) of Kenya, the Co-operative Bank of Kenya and the Kenya Union of Savings and Credit Co-operatives (KUSCCO) as some of the co-operatives that were established in 1960s but have continuously managed to innovate, survive and thrive in a competitive environment. He identifies new areas of co-operative business including youth-owned and youth-controlled Co-operatives in the areas of information technology, agriculture and finance; women-owned and women-controlled co-operatives especially in handicraft and agriculture; community-based initiatives such as power-generation, environmental conservation, bee-keeping and raring of chicken and rabbits.

To accommodate Kenya's rising population, co-operatives that allow and encourage common ownership of properties will be the best alternative model for development to that of capitalist industrial enterprise and will be the safest and surest way of providing for the needs of Kenyans.

Like other sectors of the national economy, the co-operative sector is undergoing changes that are posing challenges to its organization and future role. An important factor expected to impact on the co-operative sector is the ongoing and apparently irreversible trend towards globalization of economies. It is anticipated that globalization will introduce new products into the domestic market and stimulate consumer demand hence increasing the opportunities for adding value to existing products. Co-operative members demand for quality services and their ability to choose from a range of sector based service providers should encourage co-operatives to improve the quality of services and operative efficiency.

Research by ILO (Schwettmann, 1997) shows that the role played by co-operatives in the national economy includes marketing of agricultural produce; mobilization of domestic savings; investment and property ownership, value addition, and employment creation. Furthermore, co-operatives generate employment through the establishment of linkages between firms, farms, market centres and also through the provision of credit for collective and individual investments.

The pre-liberalization policies related to state-controlled co-operatives. Now, due to liberalization, co-operatives like other sectors of the economy have to perform without close state intervention. The government has stated in the Economic Reform Policy its intention to "move further away from direct participation in economic activity and towards the provision of an enabling environment for private sector development with emphasis on policies which are environmentally friendly and which encourage labour using growth."

The current policy towards co-operative development is contained in Sessional Paper No. 6 of 1997. The policy provides a framework for "Co-operative Development in a Changing Economic Environment", and the co-operative management approach. The legal framework has made provision for and acknowledged the Co-operative Principles and written them down to define and distinguish the co-operative form of organization from other types of organizations.

Under the Act of 1997, the Department of Co-operative Development, was restructured to conform and be able to address the newly emerging needs of the liberalized movement. The current role of the department is largely regulatory and facilitative in nature, aimed at creating a conducive environment for development of an autonomous and self -sustained co-operative movement.

Whereas the government is interested in a healthy growth and development of co-operatives (they) are expected to manage their own affairs in accordance with the universally accepted co-operative values and principles. Government is however concerned that all stakeholders in co-operatives including members and creditors are adequately protected.

The economic reforms implemented have triggered off the dismantling of the monopolistic powers enjoyed by various co-operative societies prior to 1997. In a number of areas aggressive private firms have been formed. It has however been observed that the co-operative organizations were not prepared and had a hard time changing and adjusting to the new competitive environment. The development of membership through training and everyday transactions and practices of co-operatives had been ignored. The Boards of management showed a lack of commitment or real understanding of co-operation and this coupled with greed led to very limited capacity of the movement to respond vigorously and effectively. The collapse of the apex, many national Co-operative organizations and second-tier co-operatives (unions) was inevitable. The co-operative model acquired a bad image in the eyes of their members and the international community.

But, the important thing is that, in spite of what happened at apex, national and union levels, many co-operative organizations at grassroots level survived continued to thrive. The very need for united action has and continued to bring people together to find solutions to their problems!

Co-operative Legal Framework

In Kenya and this seems to be the trend in other African countries, there is a seemingly renewed interest in the co-operative model by governments and international donors. It is hoped that Kenyan as well as other African governments will learn from past experience and do it right this time! That is the Government should limit its role to the promotion of a conducive environment for co-operative growth and development. The current revision process of the Co-operative Legal framework in Kenya has invited some concerns from the stakeholders. With the purpose of contributing to a legislation that will correctly reflect the respective roles of the government and the movement, the co-operative organizations have made a joint effort to comment on the draft Co-operative Societies' Amendment Bill 2003.

The co-operative movement has also shown keen interest towards a profound discussion of the Co-operative Development Policy and a specific legal framework for Savings and Credit Co-operatives (SACCOs). Co-operatives, on the other hand, also need to learn from their past experience. Once given the freedom, it is an opportunity to demonstrate their capacity and ability and show to the rest of the community that they are truly autonomous, independent and capable of self-governance.

Way Forward

Co-operatives and other economic groups in the associative economy have a future in Kenya as they provide the poor with opportunities for self-help promotion and self-reliance. Some measures/ strategies however need to be taken which could change the nearly tarnished image of co-operatives to institutions which could truly enable members and the public to realize their own development needs. But such measures should embrace the need to allow for democracy to grow from below. A strong member-base is imperative for the development of a strong and legitimate movement. Co-operatives must look upon member and members' influence as an opportunity, not a threat.

Co-operative leaders must be accountable and transparent to members. They have the right to know and influence the state of affairs of their organizations. Leaders on the other hand should be business oriented, entrepreneurial and visionary. There should be allowance for the young generations to influence upon visions and strategies of co-operatives. Space must also be created for women not only for sake of justice, but also to achieve development. This is a resource which up until now has been more or less untapped and unexplored in the co-operatives movement. The role of government in co-operatives should be development of educational, accountability, transparency and good governance instruments for self-control.

Co-operative legislation should allow more freedom while the co-operative development policy should elaborate on the need to diversify. The co-operative enterprise is about people's needs and must support the needs of the local community. Such environments which are basic to the overall investment climate that can promote twinning, collaboration, partnerships and linkages must be tackled in the context of preparing for a conducive investment-climate by ensuring rapid economic recovery, wealth and employment creation, poverty alleviation through co-operatives.

Co-operative human resource development (HRD) institutions must also play a part to embrace empowerment of members as an absolute necessity. Empowerment means the enhancement of the capacity of members to influence co-operative organization through being confident and assertive, transparent and able to accept criticism; full participation in policy making processes and decision making of the co-operative; planning their co-operative activities; identifying their problems and how to solve them; developing capacity in accessing to resources; patronizing their co-operative societies; being innovative and search for new knowledge and alternatives and be able to engineer and manage changes; being able to identify and search for services needed e.g. training, auditing and inspection; being able to hold management accountable and demand answers and explanations from them; and being able to analyze and assess their business performance and profitability/loss.

Such a member will have the ability to visualize her/his future better and to assess her/his role more accurately in the shaping of that future then and only then can co-operatives be established as free enterprises and be a basis for economic development.

Conclusion

The paper concludes that co-operative enterprises' need to respond to the intensification of competition as the globalization of economies and markets continues. One key part of the co-operative response must be in terms of developing a global market presence. Another requirement is that a significant proportion of co-operative investment is placed in the knowledge based industry where the highest growth rates are found. Kenya's Co-operative Movement must ensure that it is technologically at the forefront both in the relevant technologies for the areas of activity that it already occupies and those new sectors that have yet to enter. Without technology co-operative agricultural marketing will continue to be wrong footed by the sophisticated capital based firms' procurement processes. They must move up the value chain in terms of processing packaging and distribution. Co-operative Banking must focus on local co-operative employment and enterprises to help shift both labour markets and national economies away from overdependence on mineral extraction for export and foreign direct investment. Just as important as the economic significance of a renewed and reinvigorated co-operative sector enabled to participate fully in the liberal economic market, freed from current restrictions, is the movements role in helping to develop a more sustainable and independent African civil society concerned to raise the welfare of the people to the top of the agenda for Africa.

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Achievements of Two Sample Coffee Co-operative Unions in Ethiopia in improving the living conditions of small farmers

Prof S.Nakkiran and Getachew Gobbena,

Abstract

Ethiopia is one of the leading producers and exporters of coffee. Ethiopia is the fifth largest exporter of coffee among the coffee producing and exporting countries. Majority of the coffee producers in Ethiopia consist of small farmers and many of them depend mainly on coffee for their livelihood. In several parts of Oromiya and SNNP regions of Ethiopia, especially in Jimma and Sidamo zones, primary co-operatives and co-operative unions have been organized exclusively for the coffee producers to market and provide service and supplies to them. Present study is undertaken to know the marketing strategies followed by the co-operative unions, especially with reference to export marketing.

The study was conducted on two Co-operative unions, which are better performing in export trade and were purposively selected. The sample Co-operative Unions are Oromia Coffee Farmers Co-operative Union and Yirgachefe Coffee Co-operative Union.

For deeper study the most successful Co-operative Union, namely Oromia Coffee Farmers Co-operative Union and two primary co-operatives affiliated to it were selected. The major findings of the study were that in their export marketing the unions have to face stiff international competition. They are able to withstand such competition and come out successfully by means of improving the quality of coffee, going for fair trade practices and by keeping better rapport with all the stakeholders involved in export trade. Compared to private trader's co-operatives are able to provide better price to the farmers. Co-operatives encourage organic coffee and go for Fair Trade. As fair trade coffee brings better price and dividend price, the primary co-operatives are educating the farmers to go for such practices continuously. To give value addition, numbers of processing activities are added by the unions. Some times when production is high, the unions are unable to procure the entire produces. During such seasons primaries sell coffee to the private merchants. This paper is part of the study conducted during the year 2012-13

Key Words

Coffee Growers, Competition, Co-operation, Export Marketing, Fair Trade, Fair Poverty Alleviation, Price, Small Farmers, Value Addition

Introduction

Ethiopia is one of the leading countries producing coffee and exporting it. In Ethiopia the average farm is about two hectares (five acres) in size and produces around 400kg of coffee a year. Farmers rarely employ labour as all the work is done by family members except at peak periods such as harvest when families traditionally help their neighbours without payment. Most primary co-operatives have wet processing facilities and employ an average of 70 temporary workers during the harvest period from September to December (others use sun drying method) The average annual income from coffee for farmers is estimated at 2,500 Birr ($287), of which 50-70% is provided by coffee. The co-operatives are spread over a large area, up to 800km apart, with different geographical characteristics. For some farmers, maize, wheat, sorghum, teff (a grain), beans, peas, chat and sesame are the main crops grown for home consumption or for sale at local markets, while livestock rearing is more important to others. As the present study covers two coffee producer co-operative unions, a discussion is given below about the working of these two unions.

Oromia Coffee Farmers Co-operative Union (OCFCU)

Oromia is the region where coffee first originated and it is by the Oromo people that the usage of coffee as a food started in the beginning of the 5th century. Oromia is approximately located between 3 degree and 15 degree North latitude and 33 degree and 40 degree longitude. The region is known for its unique native vegetation as well as for being the centre of diversity for many different species of plant. The region is the birth place of coffee. The Oromo people of the region use coffee as food, drink, trade, spiritual nourishment and as a tool for peace-keeping.

Oromia Regional State, which accounts for 65 percent of the country's total coffee growing land and includes coffees from Limu, Yirgacheffe, Nekemte, Jimma, Sidamo, Nekemte, Ghimbi, and Harrar. The region where the coffee is grown covers the central, western, eastern and southern areas. The total area cultivated by the co-operatives is 163,192 hectares; of this 50,692 is certified organic.Oromia grow six different types of coffee:

- Yirgacheffe – medium body, tart acidity, floral aroma
- Sidammo –pleasantly sweet, balanced acidity
- Limu – balanced flavour, good acidity, medium body
- Nekemte – light acidity, rich, balanced cup
- Jima and Harrar –uniquely fruity, spicy flavour, medium acidity, heavy body.

Proclamation 147/1998 of the government of Ethiopia permitted the formation of higher level co-operatives (unions and eventually federations and a co-operative league). Using this opportunity for the first time, primary co-operatives societies were allowed to group together to increase their market power on both the input and product sales. The Oromia Coffee Famers Co-operative Union (OCFCU) was established with 34 participating co-operatives. Tadesse was appointed General Manager. The establishment of OCFCU was necessitated to support farmers produce in small-scale on small patches of land, with no access to agricultural equipment. These small scale farmers typically do not have access to transportation facilities to get their coffee processed or auctioned.

One of the overriding reasons to establish Oromia Coffee Farmers Co-operatives Union was to save coffee farmers from mischief of local merchants through null cheque frauds and improve farmer's income from coffee exporting. The Union was, therefore, established as a means to provide protection, to serve as resources and expertise to the small co-operatives, so that they could overcome exportation problems and receive increased coffee revenue.

The mission: to raise farmers' incomes, make them economically self-sufficient and improve the quality of the coffee they grow in a mountainous region that has limited infrastructure and where running water and electricity are rare luxuries. OCFCU's farmers now cultivate a total area of over 300 000 hectares and produce some 230 000 tonnes of coffee annually, some 27 600 tonnes of which are Fairtrade certified. The union encourages its farmers to intercrop their coffee trees with other food crops, like mangoes, papaya, avocados, sweet potatoes, ginger and cardamom, in order to reduce erosion, enhance soil fertility and to provide for their own consumption or for sale on local markets, but the vast majority remain dependent on coffee for their disposable income.

Coffee being the largest export crop of Ethiopia and means to link rural farmers to consumers of worldwide that smallholder farmers have traditionally been undeserved; even exploited and marginalized. The smallholder coffee farmers in Oromia region is no exception. To help coffee farmers get price information, capital and transportation as well as necessary skills in production, processing and supply of coffee, there was no other alternative than establishing OCFCU. In fact, it was a groundbreaking initiative in the history of coffee farmers of the country. The Union was first founded by 34 primary coffee farmer's co-operatives representing 23,691 members. The Union is the largest and ground breaker for coffee Fair Trade producer in Ethiopia.

Objectives of the OCFCU

The major objectives of OCFCU are to organize, promote and develop coffee farmers producing, processing and storage and marketing capacity and thereby to enable them obtain optimal yield from their produces. It strives to bring more money to the pocket of Oromia Coffee Farmers who are the growers, processors and suppliers of high quality, organic Arabica coffee to the Union for a direct export.

Broadly, the objectives of OCFCU are to:

1. Improve the farmer's income by exporting their coffee directly to the international markets.
2. Provide member farmers and clients with reliable service.
3. Improve the social condition of farmers
4. Improve the quality and productivity of Ethiopian coffee
5. Improve and maintain the sustainability of coffee industry
6. Enhance the development of smallholder co-operatives through linking to markets
7. Bring about a significant positive change on small-scale coffee producers and the coffee value chain

as a whole thereby producers have improved the quality of their coffees, gain access to higher-value markets and earn substantially more income from their production.

Following the government policy that allowed coffee producers to export directly by passing central auction markets, OCFCU seized the opportunity and managed to penetrate the international coffee market and become owner of Fairtrade and Organic certifications and on-going certification of Utz Kapen and Forest Alliance. Its member primary co-operatives grew from the initial 34 to 197 to date total beneficiary as well increases. The central philosophies of OCFCU are: partnership, transparency, dialogue, accountability, respect, gender equality and sustainability in all its operations. The overall goal of the organization is to contribute to sustained rural poverty reduction in Oromia by applying co-operative principles. The objective of the organization is to bring together the properties and knowledge of its members and solve problems jointly that is difficult to solve alone. It has also the aim of enhancing the self reliance of members by increasing production and productivity of farm enterprises. Also the members are benefited from the union by credit service for coffee purchase, supply of technologies related to coffee, trainings, extension services, maintaining different certifications, dividends from profit generated, construction of different social infrastructures like school, health centre, bridges, etc. Moreover, the bargaining power of coffee farmers through union is maintained.

During the year 2001 OCFCU joined the fair trade network. OCFCU operates under an Auction Market Waiver which allows it to export directly to specialty markets in the US, Europe and Japan. This means it can bypass both middlemen and the Ethiopian coffee auction and therefore achieve a much higher price for its members' coffee. OCFCU provides credit facilities and technical assistance and has acquired funding from the Common Fund for Commodities to set up a cashew nut project to diversify incomes.

Organizational structure and Membership

As an autonomous body, the Oromia Coffee Farmers Co-operative Union is organized in such a way that it can meet members' common economic, social, and cultural needs and aspirations through democratically controlled enterprises. Members often have a direct stake in the Union's overall activities through plausible structural representations.

The structure is very inclusive and participatory that members are decision makers in all the activities of the Union. The linkage among all actors: The Union, Co-operatives, producers, exporters and expertise is very strong. Accordingly, the Union comprises, (as on 2012):

- 197 members of representatives of General Assembly: The apex being the ultimate decision making body composed of representatives from member co-operatives.
- 9 member Board of Directors
- 3 members of Controlling Committee, and
- 84 permanent employees in charge of rendering services for the well- being of members.

Achievements of OCFCU and Current Status

The virtual organizational structure of Oromia Coffee Farmers Co-operatives Union (OCFCU) coupled with its efficient management has resulted in improved coffee quality and overall operational efficiency. Dead on target, coffee growers have been benefiting more from their produce since the inception of the Union.

1. The Union buys, accumulates, processes and internationally sales coffee supplied by smallholders through their co-operatives. The managing, coffee processing, marketing and its commercialization has become modernized and standardized. Hence, the Union has been able to achieve in a short year since establishment incredible level of growth which further has inspired the co-operatives members to increase their capacity through helpful services they receive.
2. With co-operative experience in international markets, the Union focused on the importance of quality production traced to origin with substantial buyer monitoring and involvement with coffee growers. The Union has also understood the need for change in growing export coffee. Hence, it has succeeded in quality coffee exporting over the last decade. The growth in production size and profitability of members are together creating a momentum for further production, marketing and employment among member co-operatives.
3. No doubt, the starting and leveraging points for nation's coffee sector development is the market. A comprehensive value-chain approach to global marketing is an excellent framework to direct business development and market linkages. Linking coffee producers to international markets requires institutional vibrancy and capacity building of co-operatives to support value chain expansion.

4. The OCFCU has built a closer link between farmers and international markets. Building local, national and international relationships with roasters and importers has paved the way to niche and speciality marketing opportunities for farmers, providing them with a living wage to improve their quality of life. As a result of policy changes regulating the marketing chain and the co-operative's engagement in the international arena, farmers now receive increased profits from elimination of middlemen and Fair trade and organic certification.
5. The economies of scale created by the union and social capital linkages at the local, national and international levels have enable the OCFCU to build and manage external relations beyond the scope of individual smallholder farmers, while still representing their interests and priorities. The OCFCU offers an example of the potential gains coffee co-operatives can achieve locally, nationally and internationally with significant investment and training.
6. With regard to building capacity of members' co-operatives, the establishment of OCFCU has been an overwhelmingly positive force. The Union has been improving year after year in building institutional capacity of member co-operatives. It has regularly been equipping members with necessary agricultural inputs, different coffee processing machineries, warehouses and material assets. Indeed, it has come a long way since it began this support initiative.
7. The Union is now exporting: Organic certified coffee, Fair Trade certified coffee, Double certified (organic and fair trade) coffee and Conventional coffee.
8. These products are of unique quality since due caution is given to the whole processes from tree to cup. In this regard, the Union controls overall activities associated with coffee producing, harvesting, processing, storing and direct exporting.
9. The other achievement made by the Union is the market direct link. As mentioned earlier, it has obtained the privilege of by-passing the auction market and sells coffee directly to the clients. Moreover, it has been aggressively working to create new market links while maintaining its reputation with its customers in the global market.
10. Well aware of the paramount importance of quality coffee to remain competitive in the world's stiff market, the Union has been devotedly working to ensure quality of coffee on sustainable bases. Towards this end, it offers training to members on quality production methods and post harvest handling. The Union has also been making every effort to build capacities of its members through motivating them, creating market linkage and providing market information. All the relentless effort of the Union is to improve efficiency at all levels of production, harvest, processing and supplying of coffee to make the most out of export trade for the well-being of the farmers.
11. Above all, members' bargaining position has been strengthened in the international market paying back a higher share of market price to producers and allowing farmers to achieve growth of scale thereby enabling them take control of their economic future. By any standard, results to date have been impressive. The co-operative members' annual production and export sale increased in many-folds. Equally impressive is the fact that the co-operatives are returning substantial dividends over the initial market prices to farmers.
12. The OCFCU operates at the local, national and international levels engaging in economic, political and social issues. At the international level, it negotiates the sale of coffee with international buyers and campaigns for equitable and just trade policies for the Fair Trade social movement. On the national level it liaises with the government on services, policy and development issues on behalf of its member organizations. It also collaborates with NGOs and other civil society actors. Finally, its member co-operatives and their members have linkages among each other and to the surrounding community. The concepts of 'bonding', 'bridging' and 'linking' (Bebbington 2000):6) are reflected in these multi-layered horizontal and vertical linkages. It is the value in these dense networks of support and cooperation that have accelerated the revival of Co-operatives by governments and donors and prompted small farmers to join them. Ultimately, what the OCFCU can achieve as a formal institution, 15 millions smallholder farmers could not manage individually.
13. Thus in the Ethiopian context, the analysis indicates that the OCFCU has successfully united smallholder farmers and facilitated their engagement in trade. Unlike the co-operatives of the past, they have full support from the government to seek the best possible price for coffee. As demonstrated by the OCFCU, co-operatives benefit members by creating an institution where households can pool

productive resources and exchange knowledge and information to achieve a desired outcome. Accountability, transparency, and empowerment through management and decision - making decentralization are key principles of OCFCU's operations. OCFCU now have a cupping lab for quality control located at its office and have massive central facility for technical, financial, administrative and also high tech processing facility with capacity of 5 – 7 tones per hour. The processing facility has created a job for 600 – 900 temporary employees. Seven coffee washing stations have been completed or are under construction. A fund has been developed for the repair of de-pulping machines to safeguard the organization's capacity to produce high quality, washed Arabica coffee.

14. Using revenue derived from the Fair Trade premiums, they have greatly improved local infrastructure in several of the co-operatives: they've constructed well built primary schools, health clinics, installed community wells, and improved roads with bridge building. Projects aimed at providing clean water supply and stable electricity continue to be undertaken. OCFCU now has a cupping lab located at its office and have massive central facility for technical, financial, administrative, and laboratory offices as well as final processing and export preparation for all members. Oromia coffee farmers Co-operative Union have recently created its own members bank which is one of the greatest benefits to members for the much needed pre-harvest financing. They also provide their farmers with insurance options to cover coffee against loss.

Yirgacheffe Coffee farmers Co-operative Union (YCFCU)

In the southern region the major coffee producing areas are Gedeo and Sidamo Zones and also some in the North Omo, South Omo and Borena produce coffee to a lesser extent. In the major coffee growing areas of the region, coffee is mostly grown as a garden (cottage or small holder) crop, intercropped with Enset, (Enset-Ventri cosum).

In the Gedeo Zone as of 1976-1977, representing members, from Kebele Farmers Co-operatives on the socialist organizational policies composed of 21 coffee producers' markets co-operatives were established. Until, 1991, the co-operatives stayed under command economy, the profit margins was calculated for them, having the coffee in monopoly by coffee marketing corporation which used to export to foreign countries. The year of 1992-1993 was a period of transition and the management of the co-operatives was a confused one, and there have been no satisfactory results shown. Though the proclamation on the co-operatives in 1994 was declared, it could not bring about changes on associations and later in 1999, the proclamation 147/98 was declared and the association began to participate in the activities of the free markets.

Representing 43,794 farmers and more than 300,000 family members, Yirgacheffe Coffee Farmers Co-operative Union (YCFCU) established in June 29, 2002 and its 22 member Co-operatives are located in Gedeo administrative Zone is Southern Ethiopia, one of the most famous coffee growing region in the country. The 62,004 hectares dedicated to garden Coffee production average 9000 tons of Yirgacheffe and 3000 tons of Sidamo washed coffee each year. The area also produces approximately 24000 tons of sun-dried coffee.

Yirgacheffe Coffee, growing 1,770 to 2,200 meters above sea level in fertile loamy soil, is the world's finest highland grown Ethiopian Arabica Coffee. Most members cultivate 0.25 to 1.5 hectares of coffee trees in a garden production system. Garden Coffee is a coffee grown under shade in the vicinity of the farmers homes, is inter-planted with false banana and other nitrogen fixing crops.

Traditional Ethiopian coffee cultivation practices are still dominant among Yirgacheffe farmers. Coffee cultivation practices are still dominant among Yirgacheffe farmers. Coffee trees are managed by hand and fertilized with organic matter. Pests are controlled in biological, natural method. Building on the long history of coffee production in the area, growers follow traditional cultivation practices rather than investing in chemical fertilizers, pesticides and herbicides. This time the union has five organic certified coffee co-operatives producing 3000 tons of coffee annually available for the European, Japanese and American markets. Out of 22 primary co-operatives, five are also registered for FLO (Fair trade Labeling Organization). Another five Co-operatives are currently in the process of receiving their organic certification.

Achievements of Yirgacheffe Coffee Farmers Co-operative union

1. The union started with 13 member Co-operatives as on 2002 and has grown steadily arriving out the membership of 22 during the year 2012. Because the union has managed to return those co-

operatives good price and marketing service to the member co-operatives.

2. The union mainly purchases coffee from Fair trade and organic co-operatives. In the fiscal year 2004/05, 93% of coffee purchased by the union was Fair trade or organic; however, even Fair trade and organic certified co-operatives could not sell all of their coffee to the union. Only 18% of the volume gathered by these certified co-operatives was exported by the union during that fiscal year .
3. Although the amounts of Fair trade and organic coffee are not large compared to the total production volume in the Gedeo Zone, the union obtains the premium price of Fair trade and organic coffee for 16% to 24% higher than New York price.
4. The premium is higher for double-certified coffee (Fair trade and organic) than it is for single-certified coffee. The union also keeps the price of conventional coffee equivalent to the price established at the New York Stock Exchange. With these premium prices, the union has benefited the certified primary co-operatives. The average dividends per member tend to be higher for certified co-operatives than they are for other co-operatives.
5. Out of the 22 primary co-operatives, who are members of the YCFCU (as on 2012) 19 are organic certified coffee producers producing 6946 tons of washed coffee and 13,892 tons of sundry coffee annually. 10 primary societies are registered for FLO/Fair trade coffee sales.

Problems of the Union

1. The biggest problem of the unions and co-operatives is the shortage of funds with which to purchase coffee. They finance their transactions using credit from banks. In cases in which they are unable to repay the credit, they are not granted new credit. Some past purchase records of co-operatives show some years without any purchases because of their failure to repay the banks. Financial constraints limit the amount of coffee purchased. For example, until recently, primary co-operatives purchased only fresh cherry for washed coffee, not sundry cherry for non-washed coffee.
2. The difficulty of market acquisition in the limited size of Fair Trade market is another constraint to the expansion of co-operative activities. As described above, the YCFCU does not sell the whole amount produced by Fair Trade and organic co-operatives. This is contrary to the other unions because they claimed that they needed more Fair Trade certification for its primary co-operatives to meet the demands for Fair Trade. This implies that there has already been some competition among the unions for the Fair Trade market; the YCFCU might have been struggling to get its share.
3. Lack of efficient pulping machine**.** There are two types of coffee processing Wet and Sun-Dried. Nearly 80 percent of the country's coffee export is Sun-Dried by type. Efficiency of pulping machine is one of the major factors for the quality of coffee. Wet Processed coffee, which fetches the highest price in the international market, was found to be low. This due to the poor technological facilities used in coffee processing. In relation to this, Sun-Dried coffee was also found to be low quality coffee as a result of traditional process of drying cherries and very old and poor quality of drying table and mats.

Comparative Position of the Two Sample Unions

Table 1 shows the establishment features of the three Co-operative Coffee Unions which are engaged in coffee export trade. Oromiya Co-operative Union, which is the leading Union was the first one to be established during the year 1999. At the beginning the Oromiya Union had 34 primary coffee co-operatives as members which had grown steadily year after year and stood at 217 during 2011. Another export Union, Yirgachefe Union was established during the year 2002 with only 13 primary coffee co-operatives admitted only 24 primaries up to the year 2011. Oromiya Coffee Unions performance in membership growth is quite appreciable.

Table 2 shows the comparative position of the sample unions in their coffee procurement made from the member primary Co-operatives. During the year 2007 OCFCU procured 4235 tons of coffee against the procurement of 3000 tons by the YCFCU. The value of coffee procured by the unions was Birr 84.4 Million and Birr 79.5 Million respectively. During the year 2011 the quantity of coffee purchased by OCFCU was 6883 tons against the procurement of 1400 tons by the YCFCU. The value of coffee procured during 2011 was Birr 821.6 Million by the OCFCU and Birr 37.1 Million by YCFCU. So it can be concluded that the procurement performance of OCFCU Union was steady over the years and that of YCFCU Union was declining year

Table 1. Profile of sample coffee export Co-operative Unions

S.No	Name of the Union	Year of establish-ment	Initial number of members	Current number Of members (2011)
1	Oromia Coffee Farmers' Co-operative Union	1999	34	217
2	Yirgachefe Coffee Farmers' Co-operative Union	2002	13	24

Source Researchers Compilation

Table 2. Coffee purchases made by the sample Unions

Year	Quantity (Tons)		Value (Birr)	
	OCFCU	YCFCU	OCFCU	YCFCU
2007	4235	3000	84.4 Million	79.5 Million
2008	5112	2310	152.2 Million	61.2 Million
2009	4660	1848	143.0 Million	48.9 Million
2010	6759	1540	254.5 Million	40.8 Million
2011	6883	1400	821.6 Million	37.1 Million

Source Researchers Compilation

Table 3. Quantity and value of coffee exported by sample Unions

Year	Quantity (Tons)		Value (Birr)	
	OCFCU	YCFCU	OCFCU	YCFCU
2003	967	437	18.8 Million	6.4 Million
2004	2431	850	45.3 Million	17. 3 Million
2005	2690	1036	67.2 Million	27.5 Million
2006	3182	1150	86.0 Million	32.7 Million
2007	3248	---	102.7 Million	------
2008	3598	-----	136.3 Million	----
2009	5329	------	270.4 Million	-------
2010	4889	-----	295.7 Million	------
2011	6598	----	709.7 Million	------

Source Researchers Compilation

Table 4. Net Profit yearned by the sample Unions

Year	Amount in Million Birr	
	OCFCU	YCFCU
2007	13.9	10.5
2008	23.4	8.0
2009	43.5	6.4
2010	61.1	5.39
2011	112.0	4.9

Source Researchers Compilation

after year.In terms of the value also the OCFCU Unions performance was far better than the YCFCU Union.

The quantity of coffee exported and the value is shown in the above table. Due to the non-availability of data, the table may look incomplete. It can be observed that during the year 2003 OCFCU exported 967 tons of coffee against 437 tons exported by YCFCU. The value of such exports was Birr 18.8 Million and Birr 6.4 Million respectively. For the year 2006 OCFCU exported 3182 tons of coffee and YCFCU exported 1150 tons of coffee. The value was Birr 86 Million and Birr 32.7 Million respectively. The OCFCU exported 6598 tons of coffee during the year 2011 worth Birr 709.7 Million. So the export performance of OCFCU in terms of quantity and value was very impressive.

The profit earned by the sample coffee unions is exhibited in the above table. During the year 2007 OCFCU union earned a net profit of Birr 13.9 Million against the profit earned by YCFCU of Birr 10.5 Million. For the year the profit earned by OCFCU increased to Birr 112.0 Million and for YCFCU came down to Birr 4.9 Million. This decline was due to poor procurement efforts.

Conclusion

At present four co-operative unions in Ethiopia are engaged in direct export of coffee. Among the four unions, the above two unions are the most promising and doing commendable service to their affiliated primary co-operatives and ultimately to their coffee growing members, the majority of whom are small farmers. These co-operatives have relieved the poor farmers from the exploitation of middlemen and merchants. The co-operatives provide better price for the coffee and give value addition their produce. Many of the primary co-operatives come under the fold of Fair-Trade label and get additional premium price for their coffee. The amount got through premium price is used for the community purpose of constructing school buildings, educational service etc.

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Agricultural Co-operatives in South and Central Europe. 19th-20th Century: a Comparative Approach

Helen Gardikas-Katsidakis and Catherine Brégianni (Eds).

Academy of Athens, 2013. ISBN 978-960-404-257-9

This collection of papers takes its title from an international conference in 2010 organised in Athens by the Modern History Research Centre of the Academy of Athens. The papers focus on Greece, Estonia, Italy, Portugal and Spain. The contributors are listed at the end of this review.

The contributors "were invited to participate in a scholarly discussion on agricultural co-operatives in the context of a renewed interest in the primary sector". In the preface, agricultural co-operatives are viewed as providing a crucial role in connecting agricultural production in the market economy, together with social functions, technical innovation, and mechanisms of social control. It adds that "the diversification that emerges from the case studies was defined by historical context and the varying socio-economic and cultural traditions".

All the countries considered are now in the European Union and in the Euro zone. The studies refer mainly, but not entirely, to developments before the European Union. This review seeks to identify the themes covered, and conclusions reached, with the development of the European Union context in mind.

The stated underlying principle of the co-operative idea is the dual role of modernisation and transformation.The individual themes include dominant problems of political interference and misapplication of international rules (Greece, Papageorgiou); the roles of the state and co-operatives (Brégianni, Eeland); from dictatorships in Spain and Portugal to the presence of the European Union (Fernandes and Román-Cervantes.

The second section emphasises the impact of external, including international factors on regional co-operatives (Brégianni & Karakatianis); agrarian reform in relation to land seizures in Portugal (Fernandes); the role of co-operatives in Greece during the Second World War in combating both famine and the black market. (Klimis-Kaminaris) the influence of refugees in the inter-war period, 1914-1940, (Kontogiorgi & Panagiotopoulos). The third and final section discusses "ideological patterns and ethnographical parameters", focussing on structures and the ideologies that gave rise to them. All this is with reference to ethnological variations, and the varying pace of economic development. Most developments were triggered by the agricultural and industrial technical revolutions, often in the context of the development of European nation states from imperial and feudal orders that preceded them.

In Greece, there were some beginnings even in the Ottoman rule. The role of the agricultural credit co-operative of Etythrae (1915-2010) and its social impact (Antoniou) is noted, along with the ideological origins of co-operation in Greece in the 1900s (Antoniou); and finally, a comment on a view on co-operation (originally expressed in verse) in Lesvos in the late 1930s (Zervou). The Greek 1967-74 dictatorship provided one example of political interference in which co-operatives' managers were replaced with its nominees, as a means of controlling the rural population. Political parties have subsequently sought to gather the rural vote by means of influence on co-operatives, which remain mostly agricultural with the first in 1827.

In Estonia Eeland notes the effect of the passing of the Russian Empire's feudal order in the development of the rural population's right to buy land. The new co-operatives were developed in the light of Danish, Finnish and German co-operatives. Co-operatives sought to be democratic, and egalitarian, but although farmers were unwilling to pool their money, in producer organisations, savings and loans co-operatives did show some uniting effects. The Soviet influence ensured that co-operatives became part of state control.

In Italy, Fefes dates the Italian co-operatives to 1849, with the first retail co-operative in 1854. There was a clear influence from the experience of the Rochdale co-operatives. In the early 20th Century, a (non-party, but socialistic) Co-operative League and a Catholic confederation existed, but Mussolini exerted control over them when in power. The League and Confederation were restored, with the League becoming closer to the communists. Co-operatives in Italy operate in all economic sectors, with none dominant.

In Portugal, Román-Cervantes, and Fernandes also note the dominance of agricultural co-operatives. As in the Spanish dictatorship, the consumer and cultural co-operatives were mistrusted by the regimes, but agricultural co-operatives were put to controlled use.

In Spain, the co-operative associations in due course became divided between secular ones and ones encouraged by the Catholic Church, although the authors note that they were not mutually hostile. The Mondragon co-operatives in Basque were examples of industrial co-operatives, established in 1954 in the town of Mondragon. The determining factor in their creation was the commitment of a Roman Catholic priest, who encouraged co-operative social values in keeping with the Church's social doctrine. By 2006, it was estimated that there were over two hundred Mondragon co-operatives, with over 91,000 personnel.

In summary, the notions of democracy were usually at conflict with central control in all the countries studied. Franco even had all references to democratic control removed (restored after the Franco era).

As all countries studied are now members of the EEC, they will need to respond to what appear to be changing general concepts of democracy within the European Union. The detailed work of the contributing authors, with regard to both the general developments on the period studied and the detailed case studies bear out the editors' summary. Co-operatives had a significant contribution to the modernisation on their respective economies and provision of social cohesion. The varying regimes, the various wars and the counties' political traditions and practices can be seen to explain the particular co-operative experience in the countries studied, but co-operative ideas and values can be seen to be transferable between countries although often interpreted differently.

The book's collection of papers provides very detailed information as well as ideas that will repay further research on the forward development of co-operatives, and not only of agricultural co-operatives.

<u>Contributors:</u>

Antonios Antoniou, Catherine Brégianni,Johann Eeland,Andronmachi Economou, Michalis Fefes, Margarida Fernandes, Yiannis Karakatsianis, Olympia Klimis-Kaminaris, Elisabeth Kontogiorgi, Dimitris Panagiotopoulos, Constantine Papageorgiou, Vasilios Patronis, Cándido Román-Cervantes, and Regina Zervou.

John Donaldson

Co-operatives in a Post-Growth Era. Creating Co-operative Economics

Edited by Sonja Novkovic and Tom Webb.

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Excluding the introduction and conclusion, written by the Editors, this book is made up of some fourteen chapters in two equal parts with contributions from sixteen authors. The first seven chapters' in Part One deals with the case for a new economics and the challenges for achieving this vision. Part Two deals with the role of co-operatives in the development of a new economy.

The book opens with what for me is the best chapter in the collection. Manfred Max-Neef provides a carefully argued and brilliantly supported critique of the failure of the capitalist system to serve the common good. He identifies the six critical and converging factors pressing us to find a new economic and political order in the world today, this is not simply the author argues a crisis of economics but of humanity itself. Manfred Max-Neef follows this with a series of critiques of what he describes as the six myths sustaining the existing system followed by a list of foundational principles for a new economics underpinned by a single value - that no economic interest can be more important than the reverence for life. His critique is supported by some very serious research findings all of which points to the pressing need for immediate and coordinated action by all those forces who share this most important human and creation centred value underpinning his vision of a new political economy.

There follows a carefully developed analysis by Neva Goodwin of the economic dimensions of the crisis in terms of the tensions and implications for prices generated by continued growth pressing up against the reality of scarce natural resources, rising population, carbon emissions and climate change. The author sets out the implications for economic theory in terms of the dependency of the economic system and the determination of economic goals at both macro and micro levels on its supporting ecological system. The economy is both embedded in and dependent on it supporting social and ecological systems. These relationships are not sufficiently discussed in my view. Particularly the impact of the social structure on economic and technologically oriented policy decisions where reference to C Wright Mills work on the power elite and its relevance to the contemporary phase in capitalisms development would have been most appropriat. This is after all an era of increased oligopolistic global restructuring of so many commodity and financial services markets coupled to the 'new' Chinese Capitalism. A reading of Karl Marx's (1852) work *The 18th Brumaire of Louis Bonaparte* shows the new authoritarian state capitalism of China is far from new. This taken together with the increased intervention by the state increasing its control of labour and its associations and we can see how the embedded economic subsystem influences political decision making needed to be developed in the discussion here.

Instead the author reviews the different theoretical positions taken on the role of markets and government intervention on the price mechanism by Keynes, Galbraith and Friedman where the author's dismissive attitude towards Galbraith may reflect a reluctance to see how far prices are administered and markets controlled in the contemporary capitalist economy. Profits are generated *along* the supply chain and realised at the point of consumption. However where and if profits are declared can be an institutional not a market function.

Neva Goodwin's discussion, however, on work and wages is where this chapter of all the chapters comes closest to getting to the heart of co-operative economics. The author's critical distinction between work and jobs and the importance of work outside the labour market for human well being and added value is fundamental to the whole co-operative project and for the achievement of a low to zero growth economy. What is missing from the discussion here and from the whole book is any reflection on the Labour Theory of Value. This is more than a little ironic in a book that in so many ways is wrestling with the problem of giving people distributive justice and a good life in the context of resource depletion as a principle barrier to growth. Labour is after all the one resource that is expanding in availability. For capitalism this is seen as a problem possibly *the* problem. But from a co-operative economic perspective Labour is the solution for it alone of all resources can produce more value than it consumes and is one that the high growth natural resource hungry, wasteful capital- intensive modern capitalism dispenses with at every opportunity.

The second half or the book produces some interesting case studies of co-operative success and potential but there is not as much integration with the first half of the book to make a convincing contribution towards the development of a co-operative economics. The editor's conclusions review what needs to be done in practical immediate terms given the crisis that globalisation and growth fired economics generate in the context of a finite planet. They emphasise changed institutional relationships and polices as promising levers for change management towards a more sustainable and just economic order. This is a theme that is repeated in various ways by many of the authors.

A Co-operative Economics without a Labour Theory of Value at its heart is both in theory and practice a non- starter. Unfortunately for many of the authors their analysis focuses instead on the inadequacy of economic theory to explain the reality of contemporary labour markets. The analysis rehearses well understood evidence from the literature but missed a real opportunity to revisit and develop creatively a labour based co-operative economic theory rooted in the movements earliest phases of development but certainly with more than a little relevance to the current search for a co-operative economics. See Davis (2000 and 2004) on the Domestic Economy and Co-operative Social Capital Management and Davis and Parker (2007) on the English Labour Economists.

Peter Davis

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Economics and Management of Co-operative Organisations

Sigismundo Bialoskorski Neto

Editora Atlas S.A, São Paulo, Brazil, 2012 ISBN 978-85-224-7311-3

This book is a seminal study of the economics and management of co-operatives. Although Latin American Agricultural Co-operatives is the books empirical focus its theoretical analysis grounded in institutional economic methodologies has much wider application. The work draws heavily on agency theory grounded on a solid empirical foundation that seeks to both explain behaviours and identify those conditions and models of management that will optimize co-operative performance across alternative structures, cultures and objects. The perspective is very much that of how co-operatives arose from the stand-point of the ordinary citizen working in association with their fellows from pre - colonisation and annexation to the present day. The idea of the co-operative organisation as a contested terrain between left and right comes out clearly from the very beginning of the book with the authors recounting of the Portuguese and Spanish colonial army's destruction of the Jesuit founded Indian Co-operative Republic in the region known as *Missiones Jesuitas* situated along the border of modern Argentina and Brazil.

The author provides an important understanding of the fragility of the co-operative project when confronting state power and powerful vested interests. Such a note is unusual in a book of economics and management and all the more welcome for that. Although the history is Latin American its resonance with other histories in Eastern Europe, the British Empire and the North American struggle for rural electrification all speak of the role of the state either paternalistic or Authoritarian as being one that can shape and distort the co-operative project . Today's biggest (membership) agricultural co-operative is clearly under the thumb of the Chinese Communist elite and in many parts of the world the co-operative business has many restraining institutional controls placed upon it by the state preventing it from competing equally in the so called free market. Chapter three considers the problem of the general failure of co-operatives to co-operate in terms of a thorough discussion of a wide variety of options for such inter-co-operative co-operation. The options themselves are discussed in terms of the allocation of property rights and decision making and the role of legal and cultural factors on the particular forms inter-co-operative collaboration can take.

However the principle focus of Prof Neto is with the different co-operative organisational typologies and their internal dynamics. The book asks hard questions concerning the barriers and efficiencies within the co-operative form of economic organisation, relating to management, governance, capital formation and the optimum size for co-operatives. To these questions the author rigorously applies established micro level theory to co-operative practice in Latin America and particularly in Brazil although there are some interesting comparative materials contrasting North and South American co-operative strategy, culture and organisation. The final chapter takes the authors analysis to some devastating general conclusions explaining disinvestment in the sector in terms of the co-operatives higher transaction costs and higher agency costs.

The author suggests that his analysis demonstrates that as co-operatives grow they exhibit a more than proportional growth in financial governance costs compared to non-co-operative enterprises. The author concludes that smaller co-operatives *may* exhibit greater efficiency from the perspective of financial governance than non-co-operative enterprises. The cautious qualified tone of this the books closing conclusion is clearly justified by the earlier chapters. Particularly in chapter four, which explores the impact of culture on the relational contracts in producer owned agri-business organizations in Brazil. Here the author argues that in Brazil the current environment of uncertainty and the inflexible institutional and legal context in a risk averse collectivistic culture leads farmers to rely less on formal contracts and more on non-committed and non-contractual relations. This exacerbates the issue of vaguely defined property rights (VDPR) in the co-operative relationship which can be reduced by the introduction of more formal contracts committing the member to specific quotas of deliverable produce to the co-operative. Prof Neto makes a point that is of general interest beyond Brazil when he notes that as co-operatives grow so the democratic benefit becomes diluted as the members vote declines in significance. He points out that the traditional co-operatives only contract for membership and governance but leave economic participation as open. Thus the VDPR problems grow.

Prof Neto notes that in the Brazilian context short term welfare is generally the accepted goal of the co-operative, particularly when the economic times are hardest and in co-operatives where the division between ownership and management often does not exist. With few internal monitoring mechanisms in place it is those members who are active, participating in the management and monitoring committees that are in the best position to petition employees to gain priority access to the co-operatives range of services. Thus influence rights are a key incentive for participation by members. This can become a problem in co-operatives with larger numbers of members which dilutes the value of their vote at the same time as there is an increasing problem of monitoring the actions of members and employees. As Prof Neto puts it; "The 'influence rights' to residual control and decision rights can result in the creation of a special class of members." (p72) The establishment of a special social order within the co-operative is possible due to the informal nature of the relational contract between the member and the co-operative.

Co-operative can in fact, Prof Neto claims, improve the economic externalities in agricultural markets for members and non-members. They can achieve this in three ways. Firstly by assisting the improved productivity of the individual farm, secondly by providing countervailing market power, and thirdly by providing opportunities to add value to the raw produce from the farm. However their ability to realise these potentialities can be severely inhibited by the higher agency and transactional costs and the VDPR arising from the co-operatives contacts emphasis on governance rights but ignoring economic responsibilities of membership. The implications underlying Prof Neto's analysis are clear. Without equal access to extension services increased farmer productivity may be compromised for members without a 'special relationship'. Secondly, the open nature of the trading contract can undermine the opportunity to maximize added value by making investing in longer term manufacturing and distribution services problematic as the co-operative has no ability to plan throughput in advance. Further solidarity will be undermined and opportunistic behaviour by members with limited influence rights and access to decision making is likely to increase.

That informal relationships undermine rather than support co-operation is a conclusion that the author appears to want to avoid and provides a series of econometric models of factors influencing member decision-making. But as all economists recognise *rational economic decision making requires access to appropriate information*. In his reporting on the use of member education Prof Neto notes two contrasting approaches adopted by the co-operatives in Brazil. One typified by the Paraná State Co-operative who encourages local educational committees to improve member participation and increase the flow of information to improve the quality of the relational agreements. Another state co-operative, however, Minas Gerais does not permit such a strategy. Their Leaders claim education committees only increase political power in the communities disturbing existing relationships. The author suggests this is because such information disturbs the distribution of influence rights. There follows a modelling of the relational processes described and also the issue is examined from a game theory approach to isolate and predict behaviours that will lead members to invest in establishing a special relationship.

It is hard to see how the existence of this special category of privileged participating membership cannot fail to lead anywhere but to inefficient resource allocations within the co-operative and a reduction in solidarity that will grow as the co-operative grows. It is also hard to square such a situation with the values and principles or the economic and social goals of a genuine co-operative. This may appear a harsh judgement as it could be argued that all membership based organisations have categories of commitment within their wider membership. For an example of this see Roger Spear, (2000) 'Membership Strategy for Co-operative Advantage' in *Journal of Co-operative Studies*, Vol. 22, No. 2, and pp102 -123. However Prof Neto recounts at the end of Chapter five, after an extensive discussion of the relationship between the typology, structure and alternative management models found in co-operatives, the depressing results of a survey of agricultural co-operatives which reported that *all* the rural co-operatives in the sample responded either that rural producer members are not subject to management system's functions or that "….it was not important to adequately inform their members." The books conclusion in chapter eight that smaller co-operatives only *may* be more efficient from the perspective of financial governance needs perhaps to be read in the light of this earlier material.

As Prof Neto juxtaposes the *Rochdale Model* to the *Solidarity Economy Co-operatives* promoted by the trade unions in manufacturing and the *Landless Peoples Movement* in agriculture he may well have accepted the official history which sees the Rochdale Model as a standard consumer or producer membership based co-operative model with the standard governance framework. The author himself describes this framework on page p24 Fig1 in his exploration of the potential agency relationships inherent in the model. Whilst the governance structure may be the Rochdale model the Rochdale Pioneers *goals* went well beyond the co-operative business model we are used to and were much closer to those early anti colonialist Jesuits and to the more contemporary efforts of the *Solidarity Co-operatives* as Prof Neto describes them. The Rochdale Pioneers saw the state as essentially something to keep clear of as they strove, as their rule book demonstrates, for autonomy, community, economic self-sufficiency including ownership of land and democratic control.

The author indicates clearly that the Brazilian co-operative movement has been a contested terrain with political forces of left and right trying to control or manipulate and sometimes suppress it. In the British case however the contested terrain was fought at an ideological level *within* the movement itself. The class struggle between capitalists and workers with lockouts forcing the abandonment of worker owned manufacturing by the ASA, the biggest union of the times in the middle of the 19th Century, and the failure of Robert Owens top down communitarian experiments played their part. Also inside the academy this struggle played out in the replacement of the Labour Theory of Value and supply side economics with Neo Classical demand side economic theory that saw value as being created by consumer preference and perception of value. The combination of these external forces with a management led ideological attack on dividend being distributed to workers rather than to the consumer enabled *the rise of consumer co-operation as an alternative ideology to the original Rochdale model*. Off course this reading of co-operative history is itself contested. See Birchall, J. (1994) *The Peoples Business,* MUP for the 'official' version and the Biography of Vansitate Neale *Christian Socialism and Co-operation in Victorian England* by Philip Backstrom (1974), Croom Helm, for a detailed account of the debate and struggle between the new consumerists and those holding to the Labour Theory of Value and the original goals of the Pioneers. For a more specific critique of the British official co-operative history see Davis, P (1996) 'Rochdale: A Re-evaluation of Co-operative History' in *Towards The Co-operative Commonwealth. Essays in the History of Co-operation*, Editor's B Lancaster and P Maguire, Published by The Co-operative College UK. Davis recounts what he believes to be the first example of management distorting the co-operative and encouraging its privatisation.

The book edited by Novkovic and Webb in the previous review demonstrated the failure of macro-economic theory to provide answers to the global crisis and called for co-operative solutions as being the only viable alternative economic model. However Prof Neto's analysis both in historical institutional / political levels and at the micro organisational behavioural level suggests that there are inbuilt constraints rooted in both the co-operatives governance model and established principles that prevents them from ever succeeding in meeting the challenge of our times. Prof Neto presents an analysis that requires from the academy a much more *critical* review of the historical goals of the co-operative movement, the way the co-operative movement is lead and mobilised, and its relevance for the development of an alternative economics that might address the macro level crisis that faces the world today.

In Chapter two the author discusses two contrasting and contested visions of co-operation between those who emphasise the co-operatives economic and those who emphasise the co-operatives social mission. There are legitimate choices Prof Neto suggests between an emphasis on professional management in the economic and a more direct democracy in the social co-operatives. The varying skills and roles of management in any specific co-operative the author sees as a product of the goals, governance and business life cycle of any specific co-operative. He concludes that agency relations depend on various incentives based on different logics; economic, political, or ethical and that although different logics can prevail organisational efficiency will depend on the adjustment of the manager's role to the primary role of the specific co-operative. The authors' grounded pragmatism, which does not take sides but attempts to delineate the conditions upon which either emphasis might succeed, is characteristic of his approach throughout this book.

Thus Prof Neto accurately describes the reality but regrettably does not go on to critique it. Whether this separation and juxtaposition of economistic and social emphasis is necessary or part of the problem for co-operative development itself is not considered. The idea that this separation of the commercial or economic from the social / democratic may be preventing an efficient business and one that is distinctively co-operative through the *integration* of social and economic goals as providing a differentiating and competitively efficient form of co-operative strategy is not considered. See Davis, P and Donaldson, J. (1997), *Co-operative Management a Philosophy for Business* New Harmony Press, Leicester and (2005) *Management Cooperativista Una filosofia para los* *negocios,* Grancia Management, Buenos Aires, and Davis, (1999) *Managing the Co-operative Difference*, ILO Co-op Branch, Geneva. No doubt the explanation for Prof Neto's ignoring of this alternative theoretical perspective may be that in the agricultural co-operative sector and in producer co-operation in particular in the Americas there are not many obvious examples of such integration. It would, however, have been interesting to know where the author would place co-operative organisations like Mondragon in Spain or Vancity in Canada in his analytic framework of 'Economic' or 'Social' Co-operatives?

The author uses agency theory which can be applied to both co-operative and non-co-operatives to discuss the difficulties for achieving good governance, goal realisation and economic efficiencies in co-operatives whether economic or social in emphasis formed through the traditional Rochdale Model or the more recent Solidarity Co-operatives. In chapter two the author lists the additional agency costs arising from both the possible agency relationships arising from the co-operative structure and from the co-operative principles of democracy, equality and solidarity. The agency framework Prof Neto insists can generate various incentives to improve agent's effectiveness in the execution of their functions the later depending on the type of co-operative where the *manager's role is one that is adjusted to the primary logic of the particular co-operative organisation.*

Davis and Donaldson (1997) and Davis (1999) if translated into agency theory are suggesting that there can be an *ethical logic* where the interests of the agent are in fact the 'common good'. In such a context the agent's role includes a leadership function to unsure unity and vision are established drivers for the co-operative organisation linking and encouraging participation of all the membership and discouraging vested interest manipulation and distortion of the democratic process and the economic consequences that can flow from such distortion.

It is in chapter five that the author explores management systems in co-operative governance in Brazil but within an analytic framework with a much more general application. The analysis of organisational efficiency from the perspective of organisational (micro) economics consideration of decision making and strategic planning arises from two complementary perspectives. Firstly that of governance and secondly that of managerial control (in terms of values information and availability). Control rights are informed by structure, governance and decision rights whereas information flows depend on management systems. What such an approach ignores of course is : a) the power of information to act as a controlling factor, and b) the question of the impact on efficiency and governance of management and organisational culture and values on the application of process. This is a surprising omission as the author is clearly aware of the significance of culture and values and refers to them extensively in the following chapter.

His classification of organisations as for profit; (investor led) non-profit, (providing public and social services) and not-for-profit such as co-operatives (whose function is to provide both economic and social services) is an uncontroversial and helpful starting point for a detailed discussion of the role of professional management in the co-operative context. Co-operatives represent a separate and clearly differentiated purpose as a not for profit organisation with a specific set of property rights, decision-making power and system of membership based distribution of residual earnings. Such distinctive characteristics shape both the governance model and the role of professional management and produces a specific set of agency problems for co-operatives. The authors of agency theory predict that the agent (the professional manager) may try to maximise his /her interests even where these contradict the hiring principal's interests. This inevitably generates agency costs.

As the non-profit is not competing in a marketplace these costs may impact of efficiency of service but are unlikely to challenge economic viability as such. For – profit and not-for profit organisations however compete in the same marketplace and although there are agency costs for the for-profit business these can to some extent be contained by linking rewards to management to rewards to share-holders. Huge executive salaries and bonuses suggest that the agent's power remains very significant in this form of business but the impact on unit costs / profits is likely to be marginal leading to lower monitoring, contractual and conflict based agency costs than those afflicting the larger professionally managed co-operatives. However at this point the author's analysis takes an interesting turn in insisting that the members are agents and the co-operative is the principal due to the unique relationship where the members should be motivated to provide produce at the quality and quantity required by the principal (the co-operative). Thus in larger co-operatives these complex relations generate agency costs such as incentives and monitoring and additional transactional costs that appear more complex still. It appears in the authors words that transaction costs in co-operatives can be reduced by 'better governance practices, more efficient management control systems, and more transparent management.' In short, higher monitoring costs plus the agency costs attracting to the hiring of professional manager by the co-operative appear too inevitably lead to the conclusion that in terms of agency costs co-operatives operate at a substantial disadvantage to for-profit organisations.

Indeed a little later in the chapter the author spells out how the co-operative principles of democracy, equality and solidarity lead to both higher agency and transactional costs which together with the VDPR problem further exacerbates the problem of agency and transactional costs. Incentives and controls will also be influenced by the degree of risk aversion or risk neutrality there is in the agent and principle and here the author suggest that in the co-operative context risk aversion by both agent and principal is the context governing the majority of cases requiring a specific set of tools for ensuring agents comply with principals interests. The two management models for co-operatives the author identifies can be classified according to; a) the degree of professionalization, and, b) the link between ownership and control. In both cases there are substantial agency costs to overcome but the author suggests management information systems are fundamental to reducing agency costs in both contexts. In the subsequent development of this argument it is the nature of the combination and synergy between the management employment contract; the hierarchy of the defined roles and tasks and the combination of managerial monitoring and control 'structures' (possibly processes or functions is meant here) that will maximize economic efficiency. There are three other variables presented apart from those linked to governance structures that differentiate between management control structures: a) the degree it is possible to plan in advance; b) the degree of flexibility in quality and quantity available in the organisations human resources, and c) the speed, relevance and relatedness of data on outcomes following actions to the previously specified objectives.

As noted earlier Prof Neto acknowledges there can be different logics underlying the agent's behaviour. *What this analysis overlooks is the impact on agency cost of the values of the managers themselves.* The model of professional that the author employs is in fact one merely based on technical proficiency but all true professions are governed by a set of ethical values and goals that direct as to the appropriate and inappropriate uses of technical knowledge and skill. If members are seen as both customers/suppliers and owners rather than as agents the VDPR problem becomes no different to the marketing problem faced by any for profit business. How does one achieve brand loyalty? TQM and market research are two management processes that can assist the governance and overcome the VDPR and transactional costs arising in larger co-operatives where they are applied to achieve clearly understood co-operative purposes. (Davis, 1999)

Whilst the Sonja Novkovic and Tom Webb editions macro-economic analysis of the failure of capitalism (see previous review in this edition) demands a response from the co-operative movement Prof Neto demonstrates clearly the institutional barriers both internal and external that are preventing the movement rising to this challenge. The pressing problem is to determine whether a) Davis's call for a principle of Co-operative Management to be part of the ICA Identity Statement (Davis, 1995 *Co-operative Management and Co-operative Purpose: Values, Principles and Objectives for Co-operatives into the 21st Century*, University of Leicester Discussion Papers in Management Studies, Management Centre, No 95/1, January)) and his and Donaldson's(1997) later attempt to outline an operational value basis for a profession of co-operative management practice is the correct solution to the challenges demonstrated in the scholarly presentation given them by Prof Neto. Prof Neto recognises that management information systems are fundamental to reducing agency costs and information asymmetry in all cases. All the empirical evidence of recent times (see this edition of IJCM v7.2 Editorial) suggests that investment in a dualistic governance system emphasising board supervision of management has failed. It appears that there is, notwithstanding this, given the recent ICA document on co-operative governance, little appetite for the changes in the perception of management's role in the leadership and stewardship of co-operatives Davis and Donaldson advocates. Referring to agency relationships in different types of co-operative (traditional and solidarity based co-operatives) Prof Neto notes that, "Different forms of logic are established in agency relations on the basis of economic logic or based on politics and ethics." (p29) There is surely *less* reason in the co-operative context for reading agent interests in terms of the assumptions of the neoclassical 'economic man' whether one views the managers or the members as the agents. Davis (1999) demonstrated how easily modern management methodologies can be applied to serve co-operative social as well as economic purposes *to the mutual strengthening of both*. Yet there remains today a lack of management development, recruitment and selection strategies aiming at establishing agency relationships within co-operatives where the agents (managers) motivational commitment is grounded in a co-operative ethical logic. A logic that differentiates the *co-operative* managers role emphasising its ethically based stewardship and leadership functions in terms of the whole co-operative project. Such a definition should be accompanied by a clear statement of operational values supporting its application in practise. It is hard to see how co-operatives are to secure the management information systems they need in practise without the adoption of this ethical logic by its management. This ethical logic is one that integrates rather than separates both the economic and social dimensions of the co-operative project. Without this reform it is hard to avoid a pessimistic reading concerning the disadvantages co-operatives face in agency and transactional costs demonstrated by Prof Neto's empirically grounded and rigorous analysis.

Peter Davis

Uncovering Resistance. Leicester and Leicestershire in World War One

Leicester Memories in Conflict Collective

Leicester Campaign for Nuclear Disarmament (CND) ISBN 978-0-9932193-0-6

This may appear an unlikely book for a review in this journal. In fact one of my earliest involvements with the co-operative movement was on a peace demonstration against the war America waged in Vietnam when the London Co-operative Society Member Relations Committee operated a mobile soup kitchen to provide sustenance for the marchers - and it was often in play on CND marches and rallies too. Co-operation has always been about reconciliation not war which is why even at the height of the cold war, unlike even the trade union international bodies, the ICA remained united across east and west just as it had done in the interwar years. Today as ICA delegates are seated alphabetically the Israeli and Iranian co-operators are sat side by side. Co-operation is a far better goal than conflict particularly if the aim on both sides is to reach the common good and to defend the dignity of the individual person however differently they might understand these concepts.

A book about people who recognised that the First World War was not a Just War but one fought out by rival imperialisms is certainly of more than historical interest in the wake of the Iraq war. It provides an important reference point in our conflict ridden world today. It also provides an opportunity to point out to that tiny minority of Muslims and other others tempted to take up the gun to 'resolve' grievances whose concept of martyrdom is a suicidal and murderous attack on their perceived enemies that there is another form of martyrdom. This is a martyrdom that forgives ones enemies. This form of martyrdom is prepared to do or say the unpopular and remind those who wish to demonise the 'enemy' that we are all human made in the image of God according to Jews, Christians and Muslims. In more secular terms that we are all united by a common humanity. It takes real courage to stand out facing ridicule, abuse and prison, as many of the people featured in this book did, for their principles and the truth as they saw it.

The book is very well documented and beautifully illustrated with some moving accounts both by people still alive who experienced the Ist World War or remembered those who were directly involved. Also there is much interesting materials from written records from the times. The book deals with a wide canvas of issues beyond simply recording some brave and principled people. The book commences with a reflection on historical resources that may have been silenced and memories repressed and the importance of memory and of not forgetting. It concludes with an interesting chapter reflecting on the controversy surrounding in the legacy of the Ist World War. For me however it is the individual recollections that are the most arresting and moving aspects in the book.

The books methodology, however, is very relevant for all people's histories and an important methodology both for organisational and business histories that want to get beneath the public relations accounts and remember how the people affected experienced it. Our young people hear a lot about what has been gained by technology but it would be well perhaps to remember *for them* also what has been lost and what the costs of the gains there have been in human terms. I would like to add a small account of my own to the many recollections in this excellent book. My maternal grandfather, Harry Collinson, fought in the trenches in France against the Germans and also in what was known as Mesopotamia in his day against the Turks. He told me one night his food convoy had stopped on the roadside and he became aware that Turkish soldiers where stealing the food from the lorry he had been driving. He told me "Well I thought if I get out of my cab and confront them I am most likely going to get killed and I thought the poor devils were losing the war by then and were starving. Likely as not they only wanted the food not a fight so I pretended to be asleep. They took as much food as they could carry and left." It was a rational and life preserving decision, certainly one I too would have taken in the circumstances, but what impressed me even then as a seven year old boy was the way my grandfather recognised the Turkish soldiers as human beings suffering the consequences of war rather than simply seeing them as "the enemy".

Peter Davis

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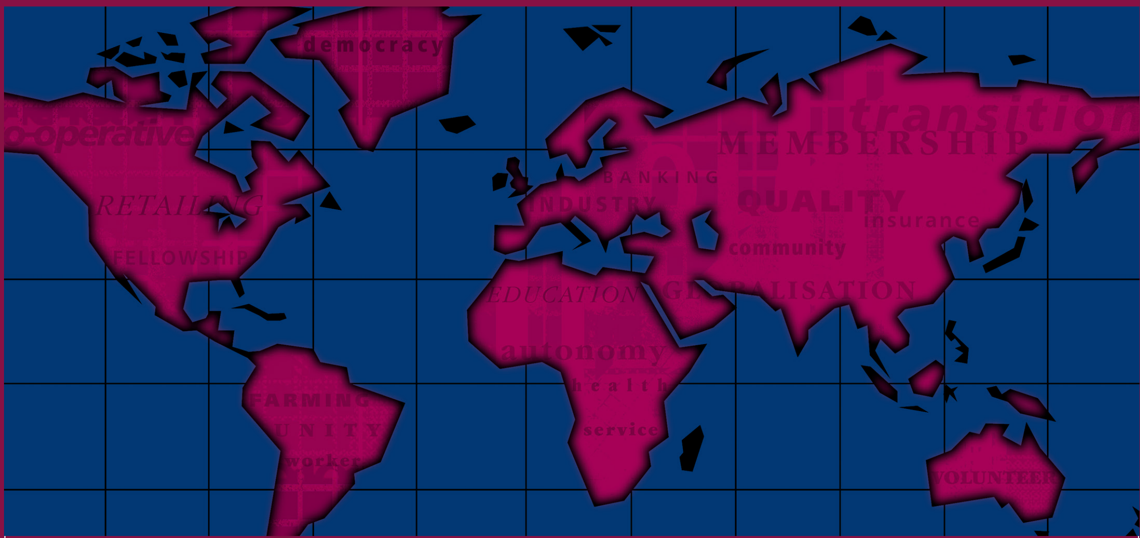

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