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# FINANCIAL CONTROL PROBLEMS OF AGRICULTURAL CO-OPERATIVES

by

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This paper is devoted to the control problems experienced by our agricultural co-operatives in their financial matters, and I think it is necessary firstly to examine what these financial matters are, secondly to try to identify the problems and, lastly, endeavour to end this paper on a positive note. We will be referring to only the primary or local co-operatives, who deal directly with our farmers.

## 1. WHAT FINANCIAL MATTERS ARE INVOLVED IN AN AGRICULTURAL CO-OPERATIVE?

Its own needs.

Its members' needs.

The statistics I will quote were also used by the Jacobs Committee - the latest figures will be available only in March 1980.

### 1.1 Own needs

1.1.1 *Own funds*, wherein are included share capital, reserves, undistributed surpluses and member funds. These funds grew from R291,9 million in 1973 to R686,8 million in 1978. This represented 31,3 % of the total assets in 1973, or a ratio of 1 to 0,98, and 31,2 % of the total assets in 1978, or a ratio of 1 to 0,92

#### 1.1.2. *Foreign funds*

These include loans from the Land Bank, commercial banks, creditors and others. These funds grew from R641,5 million in 1973 to R1511,7 million in 1978. In 1973 this represented 68,7 % of the total assets and in 1978 68,8 % of the total assets. The ratio of own funds to foreign funds was 1 to 2,20 in 1973. This remained the same in 1978.

### 1.2 Members' requirements

These consist mainly of short term credit for the purchase of production requisites, but medium term credit for the purchase of durable farming requisites is also provided. In this group we must also include the funds needed to finance the produce of farmers as well as trading stocks.

In 1973 the amount used for this purpose was R646,7 million. This increased in 1978 to R1 569,3

million. Of these amounts member debtors represented R158,8 million in 1973 and R556,3 million in 1978. These are of course the figures as at 30 June.

If we take data from the survey made at the important maize and wheat co-operatives only, we find that the maximum credit granted to members in 1972/73 was R115,6 million compared with R713,4 million in 1979/80.

### 1.3 Summary

The following are the changes in the financial position of our agricultural co-operatives from 1973 to 1978 -

Total turnover	+ 127 %
Total assets	+ 136 %
Fixed assets	+ 119 %
Current assets	+ 143 %
Member debtors	+ 250 %
Stocks of requisites	+ 165 %
Total own funds	+ 135 %
Total foreign funds	+ 136 %

It is also noteworthy that the co-operatives handled approximately 70 % of the total gross value of agricultural production in 1978 and approximately 80 % of all agricultural inputs in intermediary goods.

## 2. CONTROL PROBLEMS

### 2.1 Directors and management

It would be wishful thinking if this factor were not mentioned as a problem. We have ascertained that about 90 % of our co-operatives' executive staff have matriculation or a higher qualification, and about 40 % have a Bachelor's degree or higher qualification, and this percentage is growing annually as the older employees retire.

As far as the directors of co-operatives are concerned there are no figures indicating qualifications. It is the exception, however, if a board member today is not in his own right a successful farmer and this is surely a qualification which should not be underestimated.

The Jacobs Committee also reported that although the financial control by co-operatives is



satisfactory, an appeal was made to co-operatives to ensure that they always operate according to sound financial and business principles.

The fact remains that our co-operatives are located in distant rural towns where facilities for personnel with exceptional skills are limited in comparison with the demand for such staff in our urban areas.

## 2.2 Sources

Normally a co-operative has the following sources of financing at its disposal, and I give you the percentages in relation to their total liabilities in 1978 to indicate the importance of each -

Land Bank	51,7 %
Own funds	31,2 %
Creditors	10,7 %
Others	3,5 %
Commercial banks	2,9 %
	100,0 %

As far as the Land Bank is concerned, it is to be hoped that many of the problems previously experienced from this source will now be eliminated after the acceptance of the so-called package deal which now allows the Land Bank to finance all the co-operatives' needs. The fact remains, however, that the Land Bank usually takes up all securities for these loans and this creates problems for some co-operatives.

As far as own funds are concerned, which of course is the most important source for the co-operative, there are numerous problems -

2.2.1 The fact that the member's share capital does not appreciate.

2.2.2 The fact that the co-operative is not allowed to pay more than 8 % interest on the share capital.

2.2.3 The fact that from the time co-operatives became taxable, the annual surplus can only be transferred to reserve funds after income tax thereon has been paid. This traditional method of building up capital was of course of utmost importance to the co-operatives.

2.2.4 The fact that the farmer's own profitability is today so limited that he is unwilling to make too large a contribution to his co-operative's financial requirements.

2.2.5 The fact that the Banking Act prohibits a farmer from investing his surplus funds with his co-operative.

As far as other sources are concerned the security problem is in many cases a limiting factor.

## 2.3 Facilities

With regard to facilities I mean the problems a co-operative experiences in making credit facilities available to its members -

2.3.1 The member as owner has, at meetings of members, to sanction all applications made to the Land Bank for loans. Yet when he applies to the co-operative for a loan, in his individual capacity, the co-operative is in some cases obliged to advise

him that the full amount cannot be granted. This, of course, causes friction.

2.3.2 The member holds his director responsible for ensuring that he is granted all the credit which he requires.

2.3.3 The member relies on his crop to repay his production credit and if the proceeds of the crop are not sufficient he expects of his co-operative, his own business, to assist and also to help him to meet his other commitments. It is already common knowledge that due to the very poor 1978/79 crops our co-operatives have been obliged to carry over about R130 million to be covered by subsequent crops.

Extension of time was granted by the Land Bank for the repayment of much of this debt carried over, but the fact remains that the co-operative ultimately guarantees the repayment of this amount in full to the Land Bank.

2.3.4 The lien or pledge which the farmer offers to his co-operative as security for production credit only covers the crop produced by the production requisites used by means of such credit. If the crop fails, the lien is not transferable to the following crops, unless a State-guaranteed Aid Scheme for a disaster year exists. The lien, of course, is only extended in respect of the carry-over debt from the disaster year.

The co-operatives are becoming increasingly the credit suppliers to farmers. Farmers are referred in all quarters to their co-operatives for this risk service. To finance a tractor or implement is reasonably safe because the article still has some value if the farmer should get into financial difficulties, but seed, fertilizer, fuel, dips and sprays, etc. disappear the day they are used.

## 2.4 Services

The members expect of their co-operative not only to supply them with all their credit facilities, but also with other services required. I wish to mention only a few of these -

2.4.1 Stock of all farm requisites must be available within easy reach of the farmer in the production area. These stocks must be purchased in advance and financed, and the control thereof causes many problems. As soon as the co-operative has purchased its stocks, the dealers from whom the co-operative did not wish to buy offer stocks to farmers at a discount for cash. Stocks which consequently become redundant cause financial problems and stocks such as spares which have to be carried for long periods also create many problems for the co-operatives.

2.4.2 Storage facilities for members' produce demand high financial inputs on silos, cold storage, processing units, etc. and usually these facilities have to be erected at distant places in the production areas. The Land Bank, as we have already mentioned, will now be allowed to make funds available for these facilities, but the co-operative will have to make a deposit of at least 10 % on these moneys, and bear much of the

attendant costs from its own funds. These services are essential and urgently required by farmers and availability of funds for this purpose is a serious problem in our co-operatives.

### 3. SOLUTIONS

The co-operatives accept all these problems as part and parcel of their responsibility towards their members and take the necessary steps to find solutions for these problems. The following are some examples -

3.1 The heavy pressure to have the package deal accepted, which has now been finalised.

3.2 A dynamic training programme for staff and directors, which is offered on a decentralised basis country-wide by highly skilled lecturers. During the past year 70 such courses were held and were attended by 1 113 people.

3.3 An inter-co-operative scheme through which the success achieved by one co-operative is

communicated to the other co-operatives to enable all to become as efficient as possible.

3.4 A concerted effort to consolidate co-operatives in specific areas, thereby increasing efficiency and obtaining better utilisation of services at lower costs.

3.5 The updating of the Co-operative Act to bring its provisions into line with the changed circumstances in agriculture.

3.6 The elimination of all overlapping and duplicated services according to a master plan approved by the co-operatives.

3.7 The activating of the members to participate to a greater extent in the activities of their co-operatives and the accompanying financial responsibilities.

3.8 Positive action by the Co-operative Council of the South African Agricultural Union to assist co-operatives in finding solutions to the aforementioned problems.