



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

FACTORS CONTRIBUTING TO POOR PERFORMANCE OF AGRICULTURAL CO-OPERATIVES IN LESS DEVELOPED AREAS

C L Machethe

Department of Agricultural Economics, University of the North

Abstract

Agricultural co-operatives are instruments used to accelerate the process of agricultural development in less developed countries. Co-operatives in less developed areas of South Africa have not, with a few exceptions, been successful in fostering agricultural development and improving the level of living of the rural poor. The paper provides some explanations for the failure of co-operatives to achieve these goals. These include: lack of membership's identity with co-operatives; lack of understanding on the part of members of the co-operative way of doing things; failure of co-operatives to compete with other businesses; inability of members to dismiss inefficient management; failure of co-operatives to provide transportation; inability of co-operatives to keep adequate stocks of requisites; insufficient credit; and the subsistence nature of agriculture. The study concludes with proposals to improve the performance of agricultural co-operatives in less developed areas of South Africa.

Samevatting

Faktore wat bydra tot die swak prestasie van landboukoperasies in minder ontwikkelde gebiede

Landboukoperasies is instrumente wat gebruik word om die proses van landbou-ontwikkeling in minder ontwikkelende lande te versnel. Koperasies in minder-ontwikkelde gebiede van Suid-Afrika was nie, met enkele uitsonderings, suksesvol in die stimulering van landbou-ontwikkeling en verbetering van die lewensstandaard van landelike armes nie. Die referaat verskaf enkele verduidelikings vir die mislukking van koperasies ten opsigte van bereiking van hierdie doelwitte. Dit sluit in 'n gebrek by lede aan identiteit met koperasies; 'n gebrek by lede aan kennis rakende die koperasiewese; 'n onvermoe van koperasies om met ander besighede te kompeteer; onvermoe van lede om swak bestuur af te dank; gebrek aan die verskaffing van vervoer deur koperasies; gebrek aan voldoende voorraadhouding; onvoldoende krediet; en die onderhoudsaard van landbou. Die studie sluit af met voorstelle om die prestasie van landboukoperasies in minder ontwikkelde gebiede van Suid-Afrika te verbeter.

1. Introduction

Agricultural co-operatives have been promoted in many less developed countries (LDCs) as instruments for fostering agricultural development. In South Africa, two co-operative movements may be identified: a modern co-operative movement for white farmers and an underdeveloped co-operative movement for black farmers. Co-operatives for whites have played a major role in the development of agriculture into one of the most developed agricultural sectors in Africa. This remarkable achievement did not, however, occur without problems. According to the Report of The Commission Of Enquiry Into Cooperative Affairs (1967:3) the co-operative movement among white farmers did not take off until 1922 because "... farmers lacked the necessary insight, experience and solidarity and in the circumstances the authorities did not offer sufficient guidance and assistance". In contrast, co-operatives for blacks have not, with a few exceptions, been successful in developing agriculture and improving the level of living in the rural areas. Agriculture in the homelands is still largely subsistence in nature and produces less than ten per cent of the total agricultural production in South Africa (Fenyés *et al.*, 1987). It is estimated that 75 percent of the inhabitants of the homelands are in a condition of absolute poverty (Beukes, 1988).

Formal co-operatives in the homelands were introduced during the 1960s and, today, these organizations exist in large numbers. It should be pointed out that the introduction of co-operatives in the homelands was by no means expected to remove all the obstacles to agricultural development but was merely seen as one of the ways through which the process of

agricultural development could be accelerated. It is precisely this function which co-operatives in the homelands may be said to have been unsuccessful in performing.

This paper attempts to provide some explanations for the unsatisfactory performance of co-operatives in the homelands. The study on which the paper is based covers six agricultural co-operatives in three magisterial districts of the Lebowa homeland, namely, Nebo, Thabamooopoo and Seshego. A random sample consisting of 80 members of co-operatives was taken and a questionnaire survey was used to collect the data.

2. Co-operative performance and factors affecting it

The performance of co-operatives should be assessed in relation to the goals for which they were established. Co-operatives are established for various reasons but the most predominant are economic in nature. Hence, the use of financial criteria in the evaluation of co-operative performance in many instances. Financial criteria are important but tend to be biased towards the promotion of growth in co-operatives. Lele (1981:56) points out that there is a dilemma between the objectives of growth and equity in co-operatives. Emphasis on growth in co-operatives may accentuate existing income disparities in the rural areas.

An often overlooked yardstick for the measurement of co-operative performance is member satisfaction. Co-operatives should be established in order to serve the interests of members and it is only when the majority of members are satisfied that co-operatives can be said to be successful. Regardless of the yardstick used, co-operative performance in the homelands is generally unsatisfactory.

The performance of co-operatives is dependent on a number of factors. Lele (1981:55) distinguishes between external and internal prerequisites for a successful co-operative movement. External prerequisites include physical infrastructure, product pricing policies, market intelligence, regulatory institutions and capital. The internal prerequisite refers to proper management of co-operatives. Lele (1981:55) argues that in the absence of these prerequisites, alternative forms of institutional arrangements are likely to be more effective than formal co-operatives. On the basis of the above observations, it could be argued that most co-operatives in the homelands should not have been there in the first instance.

In the promotion of co-operatives in LDCs, including the South African homelands, little attention is often given to the consideration of alternative institutions. The United Nations Research Institute for Social Development in its studies of co-operatives and planned change (according to Apthorpe and Gasper (1982:658)) expressed some doubts as to whether co-operatives were in many cases the best instruments for achieving the stated goals. A review study prepared for the International Co-operative Alliance (according to Apthorpe and Gasper (1982:658)) concludes that it would be more helpful to take a broader approach and begin by finding answers to the following questions: What are the possible rural development policies that could and should be pursued? What goals should they aim at? What are the relevant conditions and constraints? The question of whether co-operatives are the best instruments for removing constraints in the way of improving the living standard of the rural poor should be considered only after answers to the above questions have been found.

Mistakes have been made in the establishment of co-operatives in the homelands but the fact is that they are in existence and their record of performance leaves much to be desired. The question that people concerned with agricultural and rural development issues should attempt to answer is 'What can be done to improve the performance of co-operatives so that they can contribute meaningfully to the improvement of the quality of life of the rural poor?'. It will be argued in this paper that both external and internal factors are responsible for the unsatisfactory performance of co-operatives and suggestions for the improvement of the performance will be put forward.

3. Analysis of the results

3.1 Reasons for joining co-operatives

People join co-operatives for various reasons but where co-operative affiliation is voluntary, they will not join the co-operative unless they receive or expect to receive a benefit from doing so. Sexton (1986:214) states that a coalition structure such as a co-operative must provide benefits at least as great as those attainable under any alternative configuration. Benefits may be of socio-political or economic in nature.

It is important to establish the reasons for affiliation to co-operatives because the success of the co-operative will be determined by the extent to which it enables members to realize their expectations. Respondents were asked to indicate why they joined their co-operatives. Various reasons were given as shown in Table 1. Major reasons given for affiliation are:

- o to be able to purchase goods on credit;
- o to be able to sell produce through the co-operative; and
- o advised by the local agricultural extension officer to affiliate.

It is interesting to note that some of the respondents joined because it is compulsory for every household in the village to become a member. Three per cent of the respondents indicated that they do not know why they joined.

Table 1. Reasons for joining co-operatives

	Number	Percentage
Advised by extension officer	10	12.50
To buy goods on credit	19	23.75
To sell produce through co-op.	18	22.50
It is compulsory	7	8.75
Government to plough for me	2	2.50
For financial benefit	7	8.75
Buy goods cheaper	4	5.00
To have more land	2	2.50
Receive extension advice	3	3.75
Advised by kgosi (chief)	1	1.25
To be able to store produce	2	2.50
To purchase goods nearer	1	1.25
Advised by a relative	1	1.25
Do not know	2	2.50
Missing data	1	1.25
Total	80	100.0

3.2 Members' identity with co-operatives and knowledge of co-operatives

In order to test members' knowledge of co-operatives and determine whether they identify with their co-operatives, the respondents were requested to name the owner of the co-operative of which they are members. A number of interesting and surprising answers were given as indicated in Table 2.

Table 2. Owner of co-operative

	Number	Percentage
Government	4	5.00
Members	33	41.25
Kgosi (Chief)	15	18.75
White people	4	5.00
Community	3	3.75
Management Committee	3	3.75
Do not know	18	22.50
Total	80	100.00

Only 41 per cent of the respondents indicated that the co-operatives are owned by members. A significant proportion (23%) of the respondents did not know the owner of the co-operatives. Five per cent of the respondents, all of whom are members of a co-operative whose day-to-day affairs are managed by whites, thought that the co-operative belongs to whites. It is significant to note that these respondents constituted 18 per cent of the respondents from the co-operative referred to above.

The respondents were also requested to state the difference between a co-operative and an ordinary business undertaking such as the local shop. Table 3 shows the responses.

A sizable proportion of the respondents (26%) believe that there is no difference between a co-operative and an ordinary business undertaking while 19 per cent do not know the difference. The fact that co-operatives sold goods cheaper than an ordinary business undertaking was regarded by 21 per cent of the respondents as the major difference. Only 11 per cent indicated that the main difference lies in the fact that a co-operative is owned by its members.

Table 3: Difference between co-operative and non-co-operative

	Number	Percentage
In goods sold	12	15.00
Non-co-op not owned by patrons	9	11.25
No difference	21	26.25
Co-op sells goods cheaper	17	21.25
Co-op provides credit	3	3.75
Co-op owned by community	1	1.25
Non-co-op sells goods cheaper	1	1.25
Co-op provides storage facilities	1	1.25
Do not know	15	18.75
Total	80	100.00

3.3 Competition with other businesses

Local shops deal in some of the goods sold by co-operatives and purchase produce from farmers. A significant proportion of the respondents (48%) buy goods from local shops. This has a negative effect on the income of co-operatives. Reasons for purchases from shops rather than from local co-operatives are outlined in Table 4.

Table 4. Reasons for purchasing from other outlets

	Number	Percentage
Prices lower	13	16.25
Outlet provides transport	5	6.25
Local co-op not carry items	18	22.55
Local co-op too far	1	1.25
Missing data	9	11.25
Not applicable	34	42.50
Total	80	100.0

Major reasons are:

- o shops offer lower prices for inputs and other items purchased than the local co-operative;
- o the co-operative does not normally carry the items purchased; and
- o shops provide transport for goods purchased by members to their homes.

The majority of the respondents (55%) indicated that they do not sell their produce through the local co-operative. The main reasons are:

- o production is only sufficient for consumption needs;
- o the co-operative did not normally accept produce for sale; and
- o prices offered by co-operatives for members' produce are too low.

Other reasons are outlined in Table 5.

Table 5: Reasons for not selling produce through co-operative

	Number	Percentage
Prices offered too low	6	7.50
Co-operative not accepting produce	8	10.00
Co-operative not provide transport	2	2.50
Used to selling to other outlets	1	1.25
No surplus available	14	17.50
Produce rot at cooperative	3	3.75
Better to sell to local shop	2	2.50
Produce stolen at co-operative	1	1.25
Missing data	7	8.75
Not applicable	36	45.00
Total	80	100.00

It may be concluded on the basis of the observations above that co-operatives do not compete effectively against local shops as regards the supply of inputs, prices of inputs and other items stocked, transportation of goods purchased by members and the provision of a market outlet for members' produce. The failure to compete effectively results in the leakage of potential income to local shops and this weakens the financial position of co-operatives.

3.4 Members' influence on the policies of co-operatives

A significant proportion (61%) of the respondents perceive their influence on the policies of their co-operatives as either low or zero. Little influence or lack thereof indicates that crucial decisions are often taken without the participation of members, demonstrating an authoritative style of management which is undesirable for co-operative success. It became clear during the survey that the management of certain co-operatives is grossly inefficient but members could not take any action to change the management as they are powerless or unaware of the extent of their power.

3.5 Supply of requisites

The development of appropriate technology is crucial to the development of agriculture in LDCs. Modern inputs which are the products of research must reach farmers if they are to have a meaningful impact on agricultural production. Co-operatives are some of the institutions through which modern inputs can be made available to farmers.

In order to determine if co-operatives are performing the function of input provision accordingly, respondents were requested to provide some indication of the availability or scarcity of production inputs at their respective co-operatives. Chemical fertilizer was identified as the most scarce input by 57 per cent of the respondents. Other inputs which are said to be scarce include insecticides and pesticides (13%), seed (9%), livestock medicines (9%) and farm implements (9%).

3.6 Credit provision

The role of credit in agricultural development is recognized world wide and co-operatives are increasingly being used as institutions for providing credit to small farmers in LDCs. The expectation to purchase goods on credit was given as one of the major reasons for affiliation to co-operatives yet some members (9%) complained that credit from co-operatives is unavailable.

4. Recommendations

It may be concluded from the above sections that a combination of internal and external factors adversely affect the performance of co-operatives in the homelands. The proposals for the improvement of co-operative performance suggested below address both internal and external factors.

4.1 Promotion of identity with co-operatives

The support a cooperative enjoys from its members determines its destiny. In order to win this support, co-operatives must strive to make members identify with them (co-operatives). Identification with co-operatives will make members feel committed to their institutions and this could help reduce the outflow of patronage to other outlets. The financial position of co-operatives could be improved significantly and this would enable them to offer some financial benefits to their members. Except in a few isolated cases, bonuses are never declared and this serves as a strong disincentive to members. It also reinforces the views of those members who believe that the co-operatives are not theirs.

4.2 Participation of members in policy-formulation

A significant proportion of the respondents feel that their influence on the policies of their co-operatives is either low or non-existent. Members need to be involved in the policy decision-making process of the cooperative if they are to identify with it. The low influence or lack thereof on the policies of the cooperative is an indication of excessive powers vested in either the day-to-day management of the cooperative or the management committee or both. This may not necessarily be enshrined in the constitution of the cooperative but ignorance on the part of membership may help promote power abuse. Therefore, the constitution of the cooperative needs to be clearly explained to the membership.

4.3 Mechanisms for removal of inefficient management

It is important for members to know that the day-to-day management of co-operatives is carried out on their behalf and that the management committee is a body that should promote the interests of members. The rights of members as outlined in the constitution of the co-operatives should be exercised. Education about the cooperative's constitution and the cooperative way of doing things could make members aware of the procedures to follow in dismissal of inefficient management. General meetings should be called regularly in order to give membership the opportunity to air their views on issues related to the management of their co-operatives.

4.4 Adequate stocks of requisites

The failure of co-operatives to keep adequate stocks of requisites such as chemical fertilizer has been cited as one of the reasons for members to patronize other business undertakings. This outflow of patronage reduces the financial strength of co-operatives. Availability of loans to co-operatives and the improvement of their financial management could help improve supplies of requisites.

4.5 Competitive prices for inputs and output

A significant proportion of the respondents indicated that high prices for inputs and low prices for their produce encourage them to purchase their requisites from other outlets or to sell their produce through channels other than co-operatives. Co-operatives could offer competitive prices for requisites by *inter alia* teaming up with other co-operatives so that they can buy in bulk and to increase their bargaining power. As far as the prices of produce are concerned, it may be impossible for co-operatives to offer competitive prices as some of these are controlled in terms of the Marketing Act. The removal of price controls could assist co-operatives to offer competitive prices for members' produce.

4.6 Provision of transportation of purchases

Most co-operatives covered in this study do not provide transport for goods they sell to members. The failure to provide transport has been cited as an important factor in encouraging members to purchase their requisites from other outlets which provide transport. Financial assistance to co-operatives to enable them to transport goods of their patrons should receive attention.

4.7 Co-operative education

It has been indicated in this study that a significant proportion of the respondents do not understand the cooperative way of doing things. An education campaign should be launched to teach members and prospective members of co-operatives about co-operatives and the benefits which may be derived from group action.

4.8 Supply of credit

An important reason given for members to join co-operatives is to enable them to purchase goods on credit. The results of this study indicate that the supply of credit to members is insufficient. Increasing the amount of credit to members coupled with appropriate measures to ensure a reasonable repayment rate should be considered. Co-operatives should strive to obtain additional credit which they can pass on to their membership. The mobilization of financial resources from the membership could also assist co-operatives in purchasing goods for sale on credit to patrons.

4.9 Promotion of production for the market

The subsistence nature of agricultural production has been identified as one of the factors contributing to the failure of co-operatives to develop their selling function (sale of members' produce) properly. However, in certain instances members do produce a surplus but co-operatives are not willing to accept the produce for sale on behalf of members. The proper execution of the selling function which involves *inter alia* the acceptance by co-operatives of the responsibility to sell members' produce could promote production for the market. This, in turn, could ensure the economic viability of co-operatives.

5. Summary

Agricultural co-operatives in less developed areas of South Africa (Homelands) have generally not been successful in promoting agricultural development. The paper attempts to provide some of the explanations for the unsatisfactory performance of co-operatives. Research data were collected by means of interviews with members of six co-operatives in Lebowa.

It is concluded in the paper that the following are major explanations for the poor performance of co-operatives:

- o lack of membership identity with their co-operatives;
- o lack of understanding on the part of membership of co-operatives;
- o failure of co-operatives to involve members in policy-decision making;
- o failure of co-operatives to compete with other businesses;
- o inability of members to dismiss inefficient management;
- o failure of co-operatives to provide transportation for delivery of members' purchases;
- o inability of co-operatives to keep adequate stocks of requisites;
- o inability of co-operatives to provide sufficient credit; and
- o subsistence nature of agriculture in less developed areas.

The paper concludes with recommendations for the improvement of co-operative performance. These include measures to promote membership's identity with co-operatives, involvement of members in the formulation of policies, empowerment of members to enable them to dismiss inefficient management, provision of inputs in adequate quantities, education of members about co-operatives, provision of delivery services, competitive prices for inputs and produce, development of co-operatives' selling function and supply of sufficient credit to members.

Note

1. According to Manyama (1985) four agricultural co-operatives for blacks were registered between 1935 and 1965. However, Machethe and Van Rooyen

(1983) mention that formal co-operatives for blacks were established in the early 1960s. Their conclusion is based on data collected from government departments in the homelands.

References

APTHORPE, RA and GASPER, D. (1982). Policy evaluation and meta-evaluation: The case of rural co-operatives. *World Development*, Vol 10, No 8:651-668.

BEUKES, EP. (1988). Some critical reflections on the development effort. In Van der Kooy, RJW (Ed). *Prodder's development annual*. Pretoria, Programme for Development Research, Human Sciences Research Council.

FENYES, TI, VAN ZYL, J and VINK, N. (1987). Structural imbalances in South African agriculture. Paper read at the Biannual Conference of the Economic Society of South Africa, University of Pretoria.

LELE, U. (1981). Co-operatives and the poor: A comparative perspective. *World Development*, Vol 9, No 1:55-72.

MACHETHE, C and VAN ROOYEN, J. (1983). Accelerating agricultural development through co-operatives. *Agrekon*, Vol 22, No 2:12-16.

MANYAMA, MM. (1985). Management of a co-operative enterprise and proposals for management development for African co-operatives in South Africa. Unpublished Post-graduate Diploma Report, Loughborough University.

REPORT OF THE COMMISSION OF ENQUIRY INTO COOPERATIVE AFFAIRS. (1967). Pretoria, Government Printer.

SEXTON, RJ. (1986). The formation of cooperatives: A game-theoretic approach with implications for cooperative finance, decision making, and stability. *American Journal of Agricultural Economics*, Vol 68, No 2:214-225.