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Cooperative Economics I

Module 2

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Module 2

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Unit I The Need for Individuals with Similar Problems to Come Together to Form a Cooperative

1.0 Introduction

Economists always argue that human beings' behaviours are rational; that is, they are classified and directed at some specific points, devoid of unnecessary emotions and sentiments. In the same line of thought, when a group of persons decide to come together to form a cooperative society, they do so with some rationale behind their action. Earlier on, when we defined what a cooperative is, using the Nominalist approach, the economic motive was emphasized; by now, you should be familiar with that definition.

This unit treats other motives (apart from the economic motives) why people join cooperatives. This is necessary so that we can appreciate the essence of cooperatives and the underlining forces pushing up cooperative activities in the modern day. Some of these forces are economic, while others are social and psychological.

2.0 Objectives

At the end of this unit, you should be able to:

- list the major motives why people join or establish cooperatives
- explain the need for cooperative.

3.0 Main Content

3.1 The Need for Co-operation

When faced with limited access to institutional funding, most oppressed ethnic groups have devised ways to finance their projects from within their own groups. Often, small groups organize and pool their resources together. Since no group can truly prosper without a strong economic base that creates jobs for its members, and considering the financial constraints that many groups face, there is the need to pool resources together towards achieving an economic end.

This co-operation has its goal, the need to build and maintain shops, stores and other businesses and to profit from them together. In many African countries today, the same commitment is made. There is the need to help build up local cooperative economic networks that help to create local people's banks to reinvest the capital. Capital can, therefore, be turned into a local community to revitalize the local economy.

Traditionally, cooperatives as an economic system and business enterprise satisfy these needs. As producers, who unite on the basis of their mutual interest in reducing living

expenses (or cost of production for producers cooperatives), cooperatives are indispensable for the transformation of communities.

Also, considering the fact that cooperative members benefit from the ownership and control of production facilities, and of accommodation shared by all, their contributions to natural economic growth is not in doubt. Now let us consider the basic essence of co-operation.

Satisfaction of economic needs

Meeting economic needs is the major motive for joining or forming a cooperative. It is an attempt to improve one's income by carrying out more economic activities or improving on the performance of the present enterprise of the individual; and by so doing, the member's economic position is improved. For instance, a carpenter who joins a carpenters' cooperative society has, among other reasons, an economic motive.

He is there so that he can get a loan, often with little interest to expand his business such as buying more equipment and tools necessary for his trade. He also hopes to buy his basic needs (carpentry materials) from the cooperative- at good prices compared to other sources. All these will enable the carpenter to compete favourably with other carpenters, who are not necessarily members of the cooperative society. The carpenter may also get professional advice and suggestion from his colleagues who are members of the cooperative. These pieces of advice and suggestions, in turn, will enhance his expertise to do things more economically, and thereby becoming more cost effective.

We can deduce from the above that, the cooperative will fulfill this economic motive by:

- reducing the cost of the carpenter's business
- direct increase in his income.

Meeting sociological and psychological needs

The sociological needs of man are varied; and what is one man's meat is another man's poison. Nevertheless, among these needs is the quest to solve problem of isolation/loneliness. Isolation/loneliness is particularly noticed as the country becomes more urbanized- with more people leaving the rural areas for the urban centres or cities.

This isolation is not felt in the villages as family ties are stronger in the rural areas. People do visit one another without prior notice. Every member of the community, to some extent, shares joys and sorrows alike; what affects one person affects the other person as well. People in villages come from almost the same backgrounds - as regards ethnic affinity/tribe, religion, culture, among others.

Notwithstanding the above, people join cooperatives- which is fairly an association of like minds, to bridge the gap created by loneliness and isolation.

Enhancement of security and protection

The need arises because the average life span of a human being is replete with one form of crisis or the other; that is, there are many risks in life. These risks or crises cannot be known in advance and may catch one unawares and unprepared. In developed countries,

governments do put elaborate plans in place to absorb the impact of crises arising from such events as illness, unemployment, legal problems, amongst others.

Unfortunately, this cannot be said of developing countries, like Nigeria. For instance, while social security is provided for citizens of developed countries such as England, Canada and United States of America- to mention but a few, the same cannot be said of citizens of Nigeria. We always bear our cross alone.

More worrisome is that this lack of care for Nigerians by our government is compounded when it is realized that the extended family, which used to play this role, is often not as intact, as it used to be, in rendering assistance to the less privilege members of the family. The traditional norm of being our brother's helpers has been greatly affected in the negative sense by civilization.

Consequently, people now tend to depend on their individual strength to solve life's crisis. But there is a limit to what an individual can do alone. Cooperative takes over in providing security and insurance through pooled efforts. Closely related to meeting security needs is the need for protection. Cooperatives offer group protection to their members against physical or spiritual threats from outside. This is especially the case when people live in fear, and feel dominated, and even exploited by powerful and even unscrupulous persons, groups or force.

Quest for personal admiration

In every individual, there is always another person(s) we hold in high esteem because of his education and other personal qualities such as truthfulness, hardworking, honesty, and boldness among others. If such an individual becomes a member by joining a cooperative society, the urge is always strong to join such organizations with him. He is seen as a mentor and would have seen the good that cooperatives can do to their members. Such people like opinion leaders in the community command goodwill and attract people to any organization where they are members.

Self-Assessment Exercise

We have discussed about the need for people with similar problems to come together to form a cooperative. Identify cooperative organizations of three different types. Select four members from each group. Ask them, politely, to give you two reasons why they joined the cooperatives.

Keeping with the neighbour

It is obvious that some people join cooperative because they want to be like their neighbours. This point is emphasized when neighbours are often conscious of each other's social status. As a result, as soon as a neighbour has joined a cooperative, the temptation is therefore, either to follow suit, especially when they see the cooperative as elitist. Membership of one's neighbour or friend in a cooperative may be viewed as one outward sign of superiority over another, who in the desire to catch up, decided also to join the cooperatives. This has a bandwagon effect.

Impulsive reason

Some individuals join cooperatives with the idea that they will not like to miss out on possible advantages arising from membership. They are not sure of what the cooperatives can offer or because they are convinced that they need the cooperative. They do so because they see many people becoming members and they believe that so many people cannot be so wrong. They believe that there may be some advantages of membership and if so, they do not want to be left out. In short, they join cooperatives on impulse.

The need to obey custom and traditions

The desire to join cooperatives may also be to obey customs or traditions. This is especially the case in the rural or semi urban areas. For instance, if a father has been a member and has played prominent role in cooperative activities, there is the tendency for some of the children to belong to cooperatives as well.

As a launching pad

The need to use the cooperative as a launching pad informed the decision of people of like minds and common goals to form a co-operative. Cooperative can, therefore, be used to get to a higher social and/or political position in the community. Some people join cooperatives for that purpose. An individual with an ambition for public appointment but without the 'right connection' may decide to be a member of a cooperative where he will be noticed.

Such people try to hold important posts, which may link them up with other individuals holding the same or similar posts in other organisations. They exploit the situation, looking for every opportunity either by television, radio or newspapers to tell the world about their leadership qualities and track records.

Curtailling external pressure

The reason for some people joining a cooperative may be as a result of external pressure, especially from governments. Until recently, in socialist countries such as the then Union of Soviets Socialist Republic (USSR), Czechoslovakia and Poland among others, cooperative society was seen as a socialistic organization, which could serve socialist cause. Legislations were enacted in such countries, which made membership to be mandatory.

Similarly, access to essential commodities, credits, inputs, etc is made conditional upon membership. In this second case, however, there is a personal choice to make, while in the first case, there is no choice.

Self-Assessment Exercise

How can cooperative be used as a launching pad?

4.0 Conclusion

In this unit, you have learnt the need for individuals with similar problems to come together to form a cooperative. What makes an individual to be a member of a cooperative can be a combination of several reasons. These motives, as well as how strong they are, vary from one individual to the other.

It is, however, important that, the management of cooperatives should have these motives at the back of their mind. They must be aware that people join cooperatives for several reasons and it is the justification of these reasons by management that will continue to make cooperative relevant.

5.0 Summary

In this unit, you have been exposed to the basis for co-operation. Having considered the need for individuals with similar problems to come together to form a cooperative, in order to satisfy their various desires, there are also conditions under which a cooperative enterprise can perform effectively.

Consequently, in the next unit, we are going to examine conditions under which a cooperative enterprise can perform effectively.

6.0 Self-Assessment Exercise

1. Explain carefully how an individual can satisfy his economic need by joining a cooperative.
2. Give reasons why it is easier for a tailor in a cooperative society to expand his business than a tailor who is not a member.

7.0 References/Further Reading

Chukwu, S. C. (1990). *Economics of the Cooperative Business Enterprise*. Germany:Marburg Consult for Self-help Promotion.

Unit 2 Conditions under which a Cooperative Enterprise Can Perform Effectively

1.0 Introduction

In order for a cooperative to grow and develop, the members must be transparent, honest, hardworking and diligent as far as their activities are concerned. This is because, in the cooperative set-up, members are both the owners of the business as well as the end users of products and/or services. The point that members should be seen by outsiders as living above board has always been emphasized in almost every discussion on a cooperative enterprise.

In other words, members should be seen by non-members as people of high integrity and morally upright, producing good quality products and services. No doubt, all these attributes will attract non-members to join or form cooperatives.

There is therefore, the need to ensure that, once cooperatives have been formed, they should be sustained. In other words, cooperatives should not experience premature death; there should be continuity and sustainability. The factors that can ensure this will be the focus of this unit.

2.0 Objectives

At the end of this unit, you should be able to:

- list the essential factors necessary for the growth and development of a cooperative society
- explain these factors, clearly.

3.0 Main Content

3.1 Factors that can enhance the Success of a Cooperative Enterprise

For any cooperative enterprise to perform effectively, there are certain conditions that should be met. These factors are discussed in this section.

The relationship between members and the cooperative society

As indicated earlier, the cooperative has the dual nature of being a group of persons who own private individual business enterprises jointly established and owned by members of the group and charged with solving members' economic problems. There is, therefore, a relationship existing between the members and the cooperative, which is both personal and economic.

Minimize over-emphasis on the interest of the cooperative enterprises

This means overemphasizing the activities which lead to high profits; emphasizing more on what the market can pay as against what members really need. The transactions with non-members should be greatly emphasized. The small members being neglected in favour of the usually fewer, but financially big members, simply to increase sales and expand business should be discouraged.

The manager regards the business as his personal estate and often influencing those members that will be elected to offices of the society. The cumulative effect of all these anomalies is the emergence of a cooperative that is regarded as efficient, as far as final accounts are concerned, but which is, by all means, not efficient in the real sense because it has deviated from its primary goal of meeting members' needs.

This results in members looking elsewhere to satisfy these needs on their own or terminating their membership. Indeed, the occurrence of internal frictions cannot be ruled out. Placing too much emphasis on the interest of the cooperative enterprise should, therefore, be minimized.

Complete neglect of the interest of the cooperative business enterprise should be discouraged

This can take any of the following forms.

- Lack of interest in raising reserve funds and obtaining reasonable share capital for the cooperative.
- Lack of maintenance of installations.
- Sale of poor quality products to the cooperative by members, while selling high quality ones through other channels.
- Members not using the cooperative, at all, to sell their products, but preferring middlemen.

The above happens, in most cases, to those cooperatives that have weak management. This will, no doubt, endanger the existence of the cooperative.

Self-Assessment Exercise

- i. You are going to carry out another interview exercise. Select another cooperative organization and choose 5 members. Ask them about their attitude towards their cooperative.
- ii. Also, ask about the attitudes of the manager towards the members. Determine what will happen to the cooperative from their answers (responses).

Closing records yearly

All transactions of the cooperatives must be properly recorded in the books of account. At the end of the financial year, which is usually 31st March, every year, the accounts should be closed. The preparation of the final accounts should commence immediately. This is very important, so that the Annual General Meeting (AGM) can take place within the year; also, all resolutions and other discussions made during the previous annual general meeting, as well as the regular meetings of the cooperative held during the year should be implemented.

If this is not the case, the issue should be investigated. The annual general meeting should be held not more than two months into a new year. This is to allow for a review of the operational result of the past year and to take fresh discussions concerning outstanding issues, and also concerning the new year.

Keeping a bank account

Every cooperative society should operate a bank account where all money for the society should be kept. The cash balance of the society should never be kept in an individual's account or home or office. There should be a limit to the amount that the treasurer should keep. We all know that money is tempting and as such, an undisciplined treasurer may not be able to resist the temptation to spend the society's money. When this is done, the smooth operation of the society's business is negatively affected.

As soon as a society commences operation, it should start operating a savings account, which yields some interest in addition to the money being safely kept. However, as the society grows, it can start operating a current account. Statement of account should be regularly collected for the purpose of reconciliation. At least three officers- president, secretary and treasurer should be signatories to the society's account.

Care of members' passbook

You should be familiar with bank passbook; similarly, every cooperative society has a passbook for its members. The passbook is, therefore, a booklet where details of a member's financial dealings with the society are recorded. The record shows the assets of the member such as- savings, shares, among others. It also shows a member's liabilities- for instance, loans taken. If there have been loan repayments, the passbook indicated the regularity of the loan repayments as regards date, amounts paid and outstanding amount, if any.

It is advisable that members should be careful with their passbooks. Instances abound where members often forget to bring their passbooks to meetings, while others do not even bother to check entries in the passbook. When a member withdraws his/her membership, he/she has to submit his/her passbook to the society.

Affiliation to a cooperative union

Every primary society should try to affiliate to a visible cooperatives union. The union should not be too far from the society. There are many advantages of the affiliation, which will make the young society to grow. Such advantages include:

- benefit of receiving professional advice from the union on how best to run the society
- receiving financial assistance by way of loans from the union to meet short-term cash requirements of the society
- uniting the society to other affiliated societies of the union where exchange of ideas is possible.

As an affiliate, members of the society can be nominated as delegates; all messages from the society to the union and from the union back to the society are sent through the delegates.

Need for effective bookkeeping

Committee members constitute an organ for managing of a cooperative society. One of the responsibilities of the committee is to ensure that an effective bookkeeper is employed. For a new society, an itinerant bookkeeper can be engaged, who combines keeping the accounts of the new society with other cooperatives societies' accounts. However, as the society grows, it can employ its own bookkeeper.

It is true to state that, an inefficient bookkeeper will muddle the accounts of the society, and it is obvious that no proper decision can be made based on such accounts. In case the society has unfortunately employed an inefficient bookkeeper, he should be sent to an appropriate school such as a cooperative college. The training will correct his deficiency.

3.2 Bonding Members of Staff

If any duty of a member of staff has to do with the funds of the society, such a staff should be made to do a bond, which must be legally signed with government seal by both relevant cooperative Officer(s) and the guarantors of the staff. It is even advisable that an insurance company should stand in as a guarantor. The designation of each employee and the extent of his involvement with cash will determine the nature of the bond.

Alternatively, there is an insurance policy called fidelity guarantee insurance scheme, which can be effected with reputable underwriters on behalf of employees that handle money, valuables and assets of the cooperative and that of its members.

3.3 Cooperative Propaganda/Publicity

Every member has a duty to ensure that the cooperative has a good image in the eyes of the public. There is no better way of giving this image than through the personal and business conducts of members. They must be seen as community leaders, opinion leaders; they must demonstrate integrity, honesty and be dedicated to the cause of the cooperative. While the community members of the cooperative desire benefits of membership, others need to know how the society can alleviate their problems and develop their community. A good image of the cooperative is imperative to the attainment of these goals.

Production of almanacs and calendars, producing and distributing gifts such as ball-pens, key-holders, t-shirts, bags, face caps, etc., are ways of spreading the 'gospel' of co-operation. All these should be encouraged.

Self-Assessment Exercise

Go through the factors that contribute to the growth and development of a cooperative society. List these factors.

3.4 Auditing the Accounts of Cooperative Society

You can remember that it was mentioned earlier on that the yearly accounts of the society should be closed and that the final accounts be prepared so that an annual general meeting can be held. Related to this factor is the need to also audit the accounts before the annual general meeting is held.

This is to ascertain that all transactions are genuine, in accordance with the bye-laws of the society. Any case of deviation should be reported and promptly investigated. It is advisable that the society should engage the services of reputable auditing firm(s).

4.0 Conclusion

Several factors account for the survival of cooperatives; you have been taken through the major ones. These factors range from the attitude of the members to their societies, to the attitude of the cooperative societies to the members of the cooperatives. All these should be positive and constructive so that, the objectives for establishing the societies can be realized.

5.0 Summary

In this unit, you have learnt about the factors necessary for continuous existence of cooperatives. We shall consider, in the next unit, the effects and influence of cooperative on their members and the general public.

6.0 Self-Assessment Exercise

1. Survival of cooperatives depends on the attitude of the members. Discuss.
2. List 10 conditions under which a cooperative enterprise can perform effectively. Explain any 5 of them.

7.0 References/Further Reading

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Chukwu, S.C. (1990). *Economics of the Cooperative Business Enterprise*. Germany: Marburg Consult for Self-help Promotion.

Unit 3 Effects of Cooperative on Their Members and the General Public

1.0 Introduction

The main focus of this unit is the effect of cooperatives on their members and the general public; this was partly treated in our earlier discussions on cooperative terminologies (cooperative effect). Cooperative effects will be fully treated in this unit.

Similarly, in Units 5 and 6 of module 1, you have learnt the factors that can influence the establishment of cooperatives. A brief recap of these factors in this unit will suffice.

2.0 Objectives

At the end of this unit, you should be able to:

- identify factors that can influence the establishment of a cooperative in a given area
- explain the effect of a cooperative on members and non-members (the general public)
- distinguish between various types of cooperative effects.

3.0 Main Content

3.1 Effects of Cooperative on their Members and Non-Members

Some experts in economics have made a distinction between political economy- which is composed of the exchange of equivalence of value and redistribution, and civil economy which is about layers in reciprocity. What does this mean? It means that beyond the negotiated cost of a product or service in civil economy, there is the concept of reciprocity.

Families often work this way, in that, they will give each other money, or their time, knowing that they may need to call in a favour at another time; but the deal of that exchange is organic and isn't set out ahead of time. With social capital in place, the value of the exchange can be negotiated informally, over a longer period.

Consequently, in any clime, the history of the region created tight communities, who cared about individualism. Social capital is extremely strong. People don't care about growing singular large companies, but in creating smaller companies, often as cooperatives, which partner and work together to create the goods and services they wish to produce. Since social capital is so strong, deals are done on a handshake, and contracts are avoided most of the time. That is trust and goodwill at play.

Therefore, the following factors are the basis for modern cooperative ventures.

Positive factors: In every given area, the presence of positive factors influences the establishment of self-help organizations. There must be permanent settlement; also, there must be a targeted group of people. The presence of people with purchasing power serves as fertile ground for pooling of resources towards achieving a desired objective.

Negative factors: On the other hand, lack of economic means, living an itinerant lifestyle, individualism instead of communalism are negative factors that do not encourage the formation of cooperative societies in a given area.

3.2 Explanation of Cooperative Effects

In general terms, this is the degree of extra satisfaction which a member derives as a result of participating or being a member of the cooperative compared to being a non-member. It is, therefore, a comparison between the level of satisfaction derived before joining the cooperative and the level of satisfaction derived after becoming a member.

We must note that cooperatives and investor-owned businesses have fundamentally different purposes. One exists to provide investors- who are risking their money, with the maximum rate of profit in return for that risk. The bottom line for investor-owned business is a 'simple bottom line'. As late Milton Friedman puts it, in an article in the New York Times in 1970- "the business of business is to maximize profits".

In contrast, the business of cooperative is to meet human needs (for the individual, group and community) in line with a set of globally accepted values and principles. Cooperatives by their nature have multiple bottom lines (effects and influences). While the investor-owned business is governed on the basis of one share, one vote, cooperatives are governed on the basis of one person one vote. These are two clearly different approaches to meeting human needs.

For cooperatives, one may expect, as a minimum, an approach which protects the capital accumulated by generations from misappropriation by a few; there should also be adherence to wholesome values and principles, protection of member owners from fraud and protection of the public well-being from the actions of members. This is because members of cooperatives are not living in isolation. Consequently their actions affect and influence both members and non-members alike.

Self-Assessment Exercise

Explain the contributions of cooperatives to our economic lives.

3.3 Distinction between various Types of Cooperative Effects

Before we go ahead to distinguish between the various types of cooperative effects, let us briefly examine positive and negative cooperative effects.

- Positive cooperative effect is when the total level of satisfaction after becoming a co-operator is higher than the total level of satisfaction before becoming a member of the cooperative.
- Negative cooperative effect occurs when the total level of satisfaction before becoming the member of a cooperative and participating in its activities is higher than the total level of satisfaction after becoming a member.

There are eight kinds of cooperative effects. These are listed below.

Price effects

There are two kinds of price effects, depending on the type of cooperative.

Increased price can be obtained for members, especially in the case of marketing cooperatives. This arises because the cooperative is now in a stronger position to supply as against the much weaker position of the individual member, who can only supply small quantity with higher cost of operation.

Also, the increase in price for members arises because there is a shortage of the channels of distribution. The middlemen, who would have made their own money, have been eliminated in the cooperative set-up.

(b) In the case of supply cooperatives, reduced prices can be obtained for members through the activities of the cooperative. This arises because the cooperative has been able to pool together the small demands of the members, which result in bigger quantity; with the increased quantity, the cooperative will be able to bargain with suppliers for discounts, since it is buying in large quantities.

Obviously, this lowers the cost of the goods.

Increased acceptability to economic circles

The small producer or marketer will not be accepted as partner for business transactions by the big final user or buyer. The big buyer or user will prefer dealing with equally big supplier. A cooperative through the pooling of resources becomes big enough to negotiate and transact business with the big buyer or user.

Similarly, extension agents, whether in agriculture or small-scale businesses, are important for increased performance; but their number is often low and inadequate. Consequently they find it more convenient to visit organised groups and big time businesses, rather than the scattered small producers.

The economic advantages that result in increased acceptance are:

- high income
- lower cost
- loans
- technical training and advice
- increased productivity.

Increased adaptability

In a free market economy, any organization that fails to adapt will certainly perish; but the ability to adapt depends on a number of facts such as:

- the level of information available
- the ability to draw the right conclusion.
- the ability to take the right action.

Increase possibility of investment

This can occur in two ways. For instance, a tailor may need a new equipment or tool that will minimize fatigue and save time, which will in turn increase his productivity; but he may not be able to get it because his financial outlay is low. However, by joining a cooperative, the tailor may be able to secure the equipment.

Another scenario may be that, the tailor may raise the money elsewhere without joining a cooperative, only to realize after purchase that the equipment is underutilised. But as a member of a cooperative, this situation will not arise since the other members will also make use of the equipment.

Possibilities of specialization

Specialization is possible in a cooperative entity, particularly the auxiliary cooperative. Here, one or more activities will be taken over by the cooperative while the members now perform reduced activities and concentrate on them. Just as you know, specialization has some advantages such as increase in productivity and income, less stress, among others.

Transfer, sharing and diversification of risk

Transfer of risk is possible because the cooperative now makes a decision concerning the future. The risk is there because no one knows exactly what is going to happen tomorrow. That anxiety now becomes that of the cooperative. Even when adverse effects occur, such risks are shared by all members, and not just one person alone.

Educational effects

There is continuous education in a cooperative, which covers business as well as specific cooperative items.

The effect of cooperative education results in:

- change in attitude of the member.
- change in the general outlook of the member.
- the member is better enlightened.
- change in the member's habits and understanding.

Social effects

The educational effects of co-operation listed above will in some way give rise to social effects. In addition, cooperative emphasizes and practices not just business success but reasonable community spirit– one for all and all for one. Consequently, dishonest profit making, which can lead to greed, selfishness and other nefarious activities are de-emphasized.

3.4 Effects of Cooperative on Non-Members (the general public)

Since non-members of a cooperative society can participate in cooperative activities by way of patronage- that is buying from or selling to the entity, the activities of cooperative do impact on the general public.

By making its goods and services available to the general public, cooperatives perform one of the important functions of economics, which is distribution. Cooperatives have the potential to reduce poverty, not only among its members, but among non-members as well. That is, cooperative values and principles provide built-in advantages to poverty reduction.

The essential nature of cooperative model or form of organisation enhances public well-being. It is indeed, incontestable that, the United Nation's Millennium Development Goals

(MDGs) and the poverty reduction strategy of the World Bank need in-puts from cooperative activities, if they are to succeed. Obviously, the attainment of the MDGs will lead to human development.

3.5 Some Achievements of Cooperative Enterprises

Cooperative businesses, worldwide, claim to have increased the income of millions of individuals by giving efficient services at lower costs. They claim that they have helped farmers to increase their net returns and to have stimulated the production of farm products of better quality.

The advocates of co-operation say that it has improved the efficiency of farmers by making available to them seeds, fertilizers, feeds, petroleum and similar supplies of good quality. Co-operation has helped, according to them, to stabilize farm prices through the control of the movement of supplies to market, and has developed marketing methods suited to the needs of farms.

Other touted benefits of cooperative businesses are that they have kept competition alive in many markets across the globe; and that they have strengthened the bargaining power of individuals through large-scale organization. They have also been seen to have eliminated or to have reduced many selling abuses and encouraged better trade practices, and that they have performed many desirable services which commercial businesses cannot profitably offer.

These and other claims need to be investigated alongside the weaknesses of cooperative businesses, as regards its relevance to the lives of members and non-members.

Self-Assessment Exercise

List the benefits of cooperative businesses as outlined above.

4.0 Conclusion

So far in this unit, you have been acquainted with different types of cooperative effects and influences on members and non-members. This is because cooperatives, by their nature, affect and influence people that come in contact with their activities. Also, you have been made aware of some of the achievements of cooperative businesses.

5.0 Summary

In this unit, you have learnt about factors that affect the establishment of cooperatives. You have also been taken through the achievement of cooperatives.

6.0 Self-Assessment Exercise

1. Can cooperatives be used to increase the income of members and non-members?
2. Why do people who advocate the cooperative way of doing business call it “economic democracy”?

7.0 References/Further Reading

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Unit 4 Explanation of the Terms “Groups”, “Sub-Groups” and “Bandwagon Effects” in Cooperative

1.0 Introduction

In every society, whatever people do are dependent on other people. In fact, scholars are able to distinguish specific groups of people who have common goals and aspirations but who in turn depend on other groups. Each of the groups tends to develop its own unique set of languages, values and beliefs. Such groups are termed “societies”. Clearly, the study of human co-operation must, occur in the context of human societies, and in line with this point of view, scholars have discovered that co-operation helps to establish the way of life of people in each society, and in particular:

- i. each society is distinguished by its own unique characteristics: that is, each society has a way of life that is different from all other societies
- ii. a society involves co-operation on the parts of its members
- iii. societies remain in existence over long periods of time.

It is in the light of the foregoing analysis that we should note that groups and sub-groups in societies have common characteristics of cooperative entities.

2.0 Objectives

At the end of this unit, you should be able to:

- explain the terms “groups”, “sub-groups” in a cooperative society
- explain the term “bandwagon effects” in a cooperative entity
- outline how cooperatives are organized
- state the strengths and weaknesses of cooperative business.

3.0 Main Content

3.1 Meaning of Groups and Sub-Groups

In every cooperative entity, there exist groups and sub-groups. A group in a cooperative society could be characterized by trade, sex (gender), key priorities such as project group, producers’ group, communication/publicity group, etc. A group is a circle of people with more homogeneous key interests. Consequently, groups are formed on the basis of:

- i. main interests
- ii. socio-economic factors
- iii. gender
- iv. trade (profession)
- v. tasks to be performed.

On the other hand, sub-groups are microcosm of groups in cooperative entity. Sub-groups are, therefore, relatively small circles of the members of a group in a cooperative society.

3.2 Meaning of “Bandwagon Effects”

It is the tendency to do something or believe in something, simply because lots of other people do. Literally, bandwagons are wagons that carry the band in a parade. Being on the bandwagon was a very convenient way to experience the parade, since you must listen to the music and didn't have to walk.

Since William Jennings Bryan used the phrase “hop on the bandwagon” during his 1900 presidential campaign, it has itself become a trendy term to express the naïve adoption of popular trends, simply because they are popular. Let us ask at this juncture, why is bandwagon useful, especially in a cooperative set-up?

Like most bias, bandwagon effect is useful because it out-sources thinking. Rather than have to think about a particular decision or problem yourself, you can assume that other people have already thought about it sufficiently, and that you can trust the opinion of the majority. For instance, when you see many of your peers, friends or even neighbours, joining a particular cooperative society, you may decide to join without even bothering to know the details about the operations of such a cooperative. This is because you assume that so many people cannot go wrong. Thus, you're joining that particular cooperative entity as a result of bandwagon effect.

Bandwagon effect is not necessarily a bad thing. According to James Surowiecki and his book titled- “*The Wisdom of Crowds*”, the crowd is often smarter and more accurate than any of the individuals in the crowd. Going with the crowd could ultimately prevent you from making mistakes that you might otherwise have made. It will also prevent you from being alone, if and when you make those mistakes; as some like to say- “*we may burn in hell, but at least, all of our friends will be there with us*”.

If you join a cooperative due to bandwagon effect, the tendency is that, it may be difficult to defend any position that comes under attack because you never knew why a decision was made in the first place. Luckily for you, because you are with the crowd, you often aren't called on to defend the position.

Bandwagon effect seems to be more about following a trend, rather than arriving at a decision based on independent merits. Bandwagon effect, also, seems to be more about the difference between individual and collective action.

Self-Assessment Exercise

Define the term “bandwagon effects.”

3.3 How to Minimize Conflicts between Groups and Sub-Groups

In every society, there are always conflicts, disagreement and misunderstanding among the people or groups of people in a community. Such conflicts are also present in a cooperative society.

Groups conflicts in cooperative can be minimized in a number of ways, among which are:

- defining the task of each group from the onset
- making provisions for amendment

putting like-minded people in the same group
qualified people should constitute the group
safety valves must be developed as internal mechanism to resolve conflicts
industry and hard work should be rewarded
reprimand deviations
discourage laziness.

3.4 How are Cooperatives Organized?

Cooperatives are sometimes small or sometimes big. They range from informal, unincorporated association with few members, to large enterprise, which count their members in tens of thousands. For instance, the **Nigerian Police Cooperative Society** has membership running into several thousands. This is because membership is compulsory for all serving police personnel; while it is voluntary for retired police officers who still maintain account with the society, as well as some few civilian staff attached to the police.

It must be pointed out, that most cooperatives, nowadays, are registered with relevant authorities. Any eligible person can become a member of a cooperative society, with voting rights, simply by buying a membership fee; membership cooperatives are the commonest types.

Cooperatives are either direct-membership type or federated organisations. As for direct-member association, the simplest type is the local association, which membership is made up of individual persons. Most local cooperatives are, therefore, direct-membership associations.

On the other hand, the members of a federated cooperative are not individuals, but are members of other cooperatives. Individuals exert their control through their membership in a local association which is in turn a member of the federated organization.

Self-Assessment Exercise

List how to minimize conflicts between groups in a cooperative.

3.5 What are the Strengths and Weaknesses of Cooperative Business?

In comparison with regular commercial business, cooperative has certain advantages or strengths and disadvantages or weaknesses. Its main advantage is that it exists and operates for the benefits of its members. At the same time, since members are also owners, they have financial interest in the success of the cooperative, which sways them toward giving it their full support and patronage. Cooperative members also have a voice in the control of the organization within the limits of majority rule; it therefore supplies the kind of service they want.

These advantages, which tend to tie the patrons to the organization by making them full partners, help build an assured volume of business. This, in turn, ensures efficiency of the operations of the cooperative. A commercial business, on the other hand, has no claim on its patrons, except the good will built up through past service.

Cooperative has the weaknesses of democratic organizations. The manager must always remember that he is responsible to a membership group and this may put a limit on his/her initiative and flexibility in operating the cooperative. He may be at a real disadvantage in competing with a commercial business which manager is concerned primarily with making profit and who, relatively, has a free hand or can consult the owner quickly and frequently.

Sometimes, cooperative businesses show unwillingness to pay the kind of salary needed to attract and hold on to competent managers and other employees. In consequence, managers and good workers are often drawn to higher-paid job in commercial businesses. Another weakness of cooperative entity is that the mass of members may lose interest in running the organization and manage it for their own benefit.

4.0 Conclusion

This unit addresses the terms “groups”, “sub-groups” and “bandwagon effects” in a cooperative entity. There is the need to map out sound management concepts, principles and techniques in managing cooperatives so as to minimize conflicts between groups and sub-groups. This is because a cooperative is not just a business organization, but an association of individuals with diverse backgrounds.

5.0 Summary

The terms “groups”, “sub-groups” and “bandwagon effects” in a cooperative have been explained in this unit. Also, tips on how to minimize conflicts among groups have been made known to you. All these will enrich your knowledge of the workings of a cooperative business.

6.0 Self-Assessment Exercise

1. Carefully, describe the terms “groups”, “sub-groups” in a cooperative society.
2. What are the strengths and weaknesses of modern cooperative enterprise?

7.0 References/Further Reading

Josh, P. (2006). *Bandwagon Effects*, *Mutual Improvement Blog*. Retrieved on July 25, 2009 from, www.mutualimprovement.com/2006/09/bandwagon_effect.html

Unit 5 Sources of Capital in Cooperative Societies

1.0 Introduction

In this unit, you will be taken through the sources of capital for cooperative societies. These sources are many, but we are going to discuss the main sources of funding for the cooperative enterprises.

2.0 Objectives

At the end of this unit, you should be able to:

- list various sources of funds for cooperative societies
- explain the meaning of gearing ratio
- describe which kind of funds is best for cooperatives
- discuss the legal framework and support that affect cooperative financing.

3.0 Main Content

3.1 How the Activities of Cooperatives are Funded

Like commercial concerns, cooperatives are financed in a variety of ways. They may get their operating funds from membership fees, common or preferred stocks, bonds, by borrowing from banks, or from other sources. Many cooperatives also finance themselves, to a considerable extent, from the savings of members kept in the form of reserves. We are going to treat three main sources of capital. These are:

- funds gotten directly from members
- surplus funds from business transactions
- funds from outsiders.

You should remember that the greater the amount of capital held by a cooperative, the greater is its ability to purchase more efficient technology, invest in staff training and education and make other improvements to the running of the cooperative business.

As pointed out above, capital for the operation and improvement of the cooperative business can come from three main sources, these sources are pictorially illustrated as below:

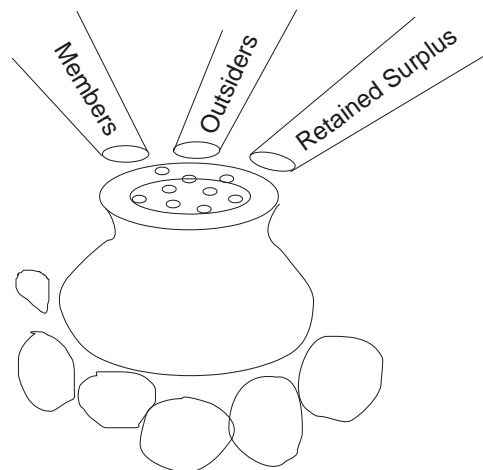


Figure 10.1: Illustration of Sources of Funds in a Cooperative

Funds from members

Members help finance the operations and growth of the cooperatives as follows:

- Annual membership fees.

- Members' contributions with no individual ownership attached, such as service fees.

- Members' share capital

- Individual members' deposits with the cooperative, which may be used for business.

- Deferred payment to members for part or all of their products delivered to the cooperative.

Members' share capital represents individual member's contribution to the cooperative form of business. It also identifies the individual members' financial stake in the society. It is withdrawn only when the member leaves the cooperative. Some other forms of contributions from members, usually related to patronage, are more variable, but once given, cannot be withdrawn and hence, they are a particularly useful form of capital.

Self-Assessment Exercise

List sources of capital in cooperative.

Funds from retained surplus

Funds created through the retention of business surpluses that are not directly allocated to members are another important source of cooperative capital. This is a long-term source of funds, since most cooperatives' rules allow these funds to be distributed only when a cooperative is liquidated. Unlike loans, or deposits of members, the cooperative does not have to pay interest to use these funds.

Of course, retaining such funds also represent a cost to individual members who otherwise would have had that portion of the surplus allocated to them. Members willingly accept the cost when the benefits it creates for them are clear and worthwhile. The source of funds

from retained surpluses is often called “institutional capital”, and represents the collectively-owned wealth of the cooperative.

Funds from outsiders

Here, note that, in addition to institutional capital and funds from members, cooperatives often make use of external sources of funds to run their operations or to finance investments.

These non-member sources of funds may include cooperative or commercial banks, suppliers, government or donor agencies. External funding may be provided in different ways, via:

- grants
- short-term loan
- long-term loan
- trade credit offered by a supplier.

Commercial providers of funds, such as banks, generally provide credit or loans that are legally secured by collaterals (pledged assets of the cooperative). They are motivated by profit and seek to minimize risk.

Non-commercial providers, such as governments or donors, generally provide credit on more generous terms at below market rates of interest; or they also provide grants. Their motivation may be social, political or economical, or often a mixture of all these.

3.2 The Gearing Ratio (Financial Leverage)

The more assets the cooperative owns- in terms of buildings, equipment, stock and financial reserves –the more others are willing to lend additional funds. Also, the greater the amount of the cooperative’s institutional capital, plus funds from members, the higher the amount that can safely be borrowed from outside sources.

Financial leverage or gearing is expressed by a percentage (%) ratio, which gives an indication of the amount of risk involved in borrowing funds. There is a high risk the cooperative runs in losing its assets in the event of inability to repay loan.

The gearing ratio relates the amount of externally borrowed capital to the total capital employed by the cooperative (institutional capital and capital from members, plus funds borrowed). We are now going to calculate gearing ratio in order to make the picture clearer-

$$\text{Gearing} = \frac{\text{funds borrowed}}{(\text{institutional and members' capital plus funds borrowed})} \times 100.$$

For example, a cooperative may have N9, 000,000 worth of assets that it has fully paid for. If it borrows N9, 000,000 from bank, it would have a high gearing ratio of (50 percent)². If on the other hand, the cooperative borrows only N1, 000,000, the low gearing ratio of 10 percent indicates a much lower level of risk.

1. i.e. gearing ratio = $9,000,000 \div (9,000,000 + 9,000,000) \times 100 = 50\%$
2. i.e. gearing ratio = $1,000,000 \div (1,000,000 + 9,000,000) \times 100 = 10\%$

The gearing ratio and hence, the level of risk involved in borrowing a given amount will vary according to the type of business a cooperative conducts.

For instance, a consumer organization with a high level of turnover but relatively low investment in fixed assets (such as building and machinery), may be able to, safely, take on relatively high short-term debt in proportion to its total assets. The same gearing ratio would represent a higher level of risk for an agro-processing society with relatively large investment in fixed assets.

Consequently, institutional and capital from members are lower risks than funds from outsiders, since they are provided by the members, and hence, the assets of the cooperative are less at risk. In most situations, therefore, they are often a preferred form of funding. Institutional capital, in addition, is the cheapest form of capital since, generally, it requires no interest.

3.3 Which kinds of Funds are Best?

Suffice it to infer that, institutional capital and capital from members are the safest forms of fund for a cooperative society; and hence should be the first choice, in most cases. However, these types of funding are sometimes not enough, or are not even available at the time when they are most needed. Funds may, for example, be required to cover running costs until a harvest is sold. In this case, a short-term loan from an outside source may be taken and repaid after the harvest.

In other cases, funds may be required for a longer period. This may be the case when the cooperative decides that the purchase of a new piece of equipment is economically justified. The group may then decide to obtain a long-term loan. You should note that in all cases, borrowing from non-member, such as banks and suppliers, is a good strategy only when net returns from such borrowings are larger than the cost of borrowing.

3.4 The Importance of Type and Source of Capital

The type and source of capital for a cooperative are important because they determine the terms and conditions attached. For example, share capital, which can generally be withdrawn by the member only upon leaving the cooperative, is a relatively stable and long-term source of funds. The cost of share capital is low because of the practice of making low (or in some cases) no payments to members based on the volume of share held. The risk is also low since no collateral is required to secure the funds.

On the other hand, loans from banks come with higher costs, as interest has to be paid on them. They are also with higher risk since cooperative assets used as collateral may be forfeited to the lender in the event of inability to repay the loan. Equipment suppliers may also effectively provide a loan to a cooperative by allowing payments to be spread over a period of time. Again, the lender may be protected against risk through cooperative assets pledged as collateral.

Short-term seasonal loans from a bank, to finance the purchase of a harvest by a marketing society for example, have to be repaid within a few months of the harvest. These funds are also generally, relatively expensive. However, as this example suggests, such short-term loans can be very useful for a cooperative.

Self-Assessment Exercise

Why are the type and source of capital important to a cooperative?

3.5 Legal Framework and Support

Many of the regulations governing the operation of cooperatives were established before recent changes in the world economy like declining donor support, globalisation of markets and increasing privatization started taking effect. Some of the regulations are still appropriated, others less so. You should note that, many laws and regulations, for example, tend to restrict the commercial activities of cooperatives. For example, take a look at the following considerations.

1. A certain portion of the surplus may have to be placed in reserve with a government authority or an apex cooperative organization, or dedicated to community improvement such as maintenance of parts or roads, regardless of alternatives that would otherwise be available and probably of greater use to members.
2. A specified percentage of the revenue of the cooperative may have to be returned to members within a specified short period of time, regardless of the financial condition of the cooperative.
3. Payouts of patronage refunds may have to equal a specified minimum percentage of the surplus, regardless of the wishes of members.
4. Some cooperatives may be required to deliver their product to government agencies at prices that are not attractive, or to sell government rationed goods at mark-ups that are not remunerative.

Financial support and privileges for cooperatives are decreasing and cooperatives are to operate in competition with conventional business. Without the identified associated privileges, many of the above regulations put cooperatives at competitive disadvantage in the market place. Many current business laws and regulations are, however, also appropriate and of great benefit to cooperatives. Some of these laws are those:

- that guarantee that business contracts will be enforced
- that permit land and property to be confiscated on non-payment of loans and hence, allow them to be used as collateral.
- that promote greater transparency in business transactions, and
- that require accounts to be periodically audited.

You should note that, a review of government laws and regulations governing agricultural cooperative business is needed in many countries (including Nigeria), to enable cooperatives run by farmers to participate successfully in increasingly competitive markets.

Finally, supportive organizations such as the Plunkett Foundation in the United Kingdom and international bodies such as the International Labour Organization (ILO), the International Cooperative Alliance (ICA) in Geneva and the Food and Agricultural Organization (FAO) in Rome, can provide guide to movements and governments willing to encourage cooperative through regulatory reforms.

4.0 Conclusion

Having looked at the major sources of funding for cooperatives, you should note that some of the sources of funds have inherent risks. You must, therefore, be able to assess the kind

of funding that is suitable for a particular cooperative society. The outcome of such assessment will inform the decision whether to choose a particular source of capital or not.

5.0 Summary

You are now conversant with the sources of capital in a cooperative; and some of these sources are risky while others are not. If a decision is taken to establish a cooperative, its funding constraints must be considered.

6.0 Self-Assessment Exercise

1. What do you understand by the term, “Gearing Ratio”? Calculate the gearing ratio for a society with institutional capital and capital from members worth N10, 000,000 that borrowed N5, 000,000 to fund its activities.
2. List the sources of capital for a cooperative. Which of these sources are less risky?

7.0 References/Further Reading

Chukwu, S.C. (1990). *Economics of the Cooperative Business Enterprise*. Germany: Marburg Consult for Self-help Promotion.

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