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Cooperative Economics I

Module 3

COP 211 (Cooperative Economics I)

Module 3

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Unit I Distinctions between Fixed Capital and Working Capital

1.0 Introduction

In the previous unit, you learn about the sources of capital in cooperatives. In this unit, we shall distinguish between fixed capital and working capital. This unit starts with the definition of fixed capital and working capital so that you can have a good understanding of the topic.

2.0 Objectives

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

- define fixed capital and working capital
- estimate the value of fixed capital
- determine investment risk of fixed capital
- list sources of funding for fixed capital investment
- explain factors which influence fixed capital requirements
- calculate working capital
- determine accounts received, accounts payable and inventory.

3.0 Main Content

3.1 Distinction between Fixed and Working Capital

We all know that capital is the oil that lubricates the wheel of business operations. The cooperatives are no exceptions. No business organization can exist without capital, which is often classified into- (1) fixed capital and (2) operating or working capital. From Wikipedia, fixed capital: “is a concept in economics and accounting, first theoretically analyzed in some department by the economist- David Ricardo. It refers to any kind of real or physical capital (fixed asset) that is not used up in the production of a product and is contrasted with circulating capital such as raw materials, operating expenses and the like. Fixed capital is that portion of the total capital that is invested in fixed assets (such as land, buildings, vehicles and equipment) that stay in the business almost permanently, or at the very least, for more than one accounting period.”

Fixed capital is, therefore, concerned with those items that often remain in the service of the cooperative over a long period of time. Examples are land, buildings, equipment, and vehicles among others.

On the other hand, working capital, according to Wikipedia:

“is a financial metric which represents operating liquidity available to a business. Along with fixed assets such as plant and equipment, working capital is considered a part of operating capital. It is calculated as current assets minus current liabilities. If current assets are less than current liabilities,

an entity has a working capital deficiency, also called a working capital deficit.”

You would have seen that, working capital, also known as operating capital, is a type of capital that is used for the actual operation of cooperatives. It is the capital spent on such items as paying for supplies from other sources to the cooperatives, payment for salaries and wages, payment for electricity and other expenditure and the income arising from the operation. Sometimes working capital or operating capital is also called short-term capital.

3.2 Fixed Capital

In national accounts, fixed capital is conventionally defined as the stock of tangible, durable fixed assets owned or used by resident enterprises for more than one year. This includes plant, machinery, vehicles and equipment, the value of land improvements, and holdings.

In cooperatives, the capital invested in land, building, equipment, vehicles, etc., is tied up for long periods and can only be recovered after a number of years through depreciation provision.

3.3 Estimating the Value of Fixed Capital

Various attempts have been made by experts to estimate the value of the stock of fixed capital for the whole economy using direct enterprise surveys of “book value”, administrative business records, tax assessments, and data on gross fixed capital formation, price inflation and depreciation schedules. A pioneer in this area is the economist Simon Kuznets. According to Wiki education:

“using the so-called ‘perpetual inventory method’ one starts off from a benchmark asset figure, and adds on the net additions fixed assets year by year, while deducting annual depreciation, all data being adjusted for price inflation using a capital expenditure price index. In this way, one obtains a time series of annual fixed capital stocks.”

However, it is widely acknowledged that it is extremely difficult to obtain any accurate measurement of the value of fixed capital, especially because even the owner himself or herself may not know what assets are currently “worth”. Some valuations for fixed assets may refer to historic cost which is acquisition cost, or book value, while others refer to current replacement cost, current sale value in the market, or scrap value. The depreciation write off permitted for tax purpose may also diverge from so-called “economic depreciations” or “real” depreciation rates.

Note that economic depreciation rates are calculated on the basis of the observed average market prices for which depreciated assets at different ages are actually sold for. Sometimes, statisticians try to estimate the average “service lives” of fixed assets as a basis for calculating depreciation or scrap values.

3.3.1 Investment Risk of Fixed Capital

It is obvious that a cooperative which invests in or accumulates fixed assets is tying up money in a fixed asset, hoping to make a future profit. Thus, such an investment usually implies a risk. Sometimes, depreciation write-offs are also viewed partly as a compensation

for this risk. A cooperative should know how to strike a balance between investing in fixed assets and maintaining liquidity.

3.3.2 Sources of Funding for Fixed Capital Investment

For most business enterprises, the owner can obtain funding for purchase of fixed capital assets from the capital market, where loans are given on a long-term basis. Funding can also come from reserve funds, the selling of shares, and the issuing of debentures, bonds or other promissory notes.

However, for a cooperative enterprise, sources of funds for investment can come from the following three main sources earlier pointed out.

- Funds from members
- Funds from business surplus
- Funds from outsiders.

3.3.3 Factors which Influence Fixed Capital Requirements

There are several factors which may influence fixed capital requirements for many business concerns. Some of these factors are as follows:

- The nature of the business plays a role in determining fixed capital requirement. A farmers' cooperative, for example, needs less fixed capital than a cement manufacturing company.
- The size of the entity. A general rule applies that, the bigger the business, the higher the need for fixed capital.
- The stage of development of the undertaking. It is obvious that capital requirement for a new undertaking is usually greater than that needed for an established business that has reached optimum size.

Self-Assessment Exercise

Define Fixed Capital.

3.4 Working Capital

Working capital can be considered as follows:

- The assets of a business that can be applied to its operation.
- The amount of current assets that exceed current liabilities.

You should note that, a company can be endowed with assets and liabilities but short of liquidity, if its assets cannot readily be converted into cash. Positive working capital is required to ensure that a firm is able to continue its operations and that it has sufficient funds to satisfy both maturing short-term debts and upcoming operational expenses. The management of working capital involves managing investor's accounts receivable and payable and cash. These principles are also applicable to a cooperative entity.

3.5 Calculation of Working Capital

The simple formula for calculating the working capital of an entity is-

Working Capital = Current Assets – Current Liabilities.

You should note that current assets and current liabilities include three accounts, which are of special importance. These accounts represent the areas of the business where managers have the most direct impact:

- account receivable (current assets)
- inventory (current assets); and
- accounts payable (current liabilities).

You should also remember that, the current portion of debt, which is payable within 12 months is very critical. This is because it represents a short-term claim to current assets and is often secured by long-term assets. Common types of short-term debts are bank loans and lines of credit.

It is a fact that, an increase in working capital indicates that the business has either increased current assets (that is, received cash, or other current assets) or has decreased current liabilities, for example, has paid off some short-term creditors.

Self-Assessment Exercise

Calculate the working capital of a cooperative enterprise with a current assets of N10 million and current liability of N15 million.

4.0 Conclusion

You should have noted the differences between fixed capital and working capital of a business entity, which is also applicable to cooperative enterprise. You have also been taken through how to calculate fixed capital and working capital. It has been noted that there is the need for an enterprise to strike a balance between investing in fixed assets and current assets in order to maintain adequate liquidity.

5.0 Summary

In this unit, you have been exposed to the importance of capital to the financial operation of any commercial enterprise. In the next unit, we shall be treating possible investment opportunities open to cooperatives in Nigeria.

6.0 Self-Assessment Exercise

1. Distinguish between fixed capital and working capital.
2. Explain in your own words, the following terms:

Fixed capital

Working capital

Accounts receivable

Inventories

Account payable.

7.0 References/Further Reading

Hermanson, R.H., Edwards, J. D & Maher, M. C. (1997). *Accounting: a Business Perspective*.

Wikipedia (2005). *Law Dictionary; Fixed Capital and Working Capital*. Retrieved July 27, 2009 from

<http://www.answers.com/topic/fixedcapital>

Unit 2 Possible Investment Opportunities Open to Cooperatives in Nigeria

1.0 Introduction

Having learnt about the distinction between fixed capital and working capital in the previous unit, the focus of this unit is on the possible investment opportunities open to cooperatives in Nigeria. We will start the unit with a brief history of formal cooperatives in Nigeria. You will also be exposed to the meaning of investment.

2.0 Objectives

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

- describe the history of cooperative development in Nigeria
- explain the meaning of investment
- discuss the various types of investment opportunities open to cooperatives in Nigeria.

3.0 Main Content

3.1 History of Formal Cooperatives' Development in Nigeria

Acquisition of wealth is, no doubt, the ambition of every human being. Consequently, the achievement of this desire requires one kind of investment or another. Every economic activity is carried out through investment in the factors of production. In fact, there are various ways in which one can get rich lawfully. The same principles in personal investment are also applicable to cooperative enterprises. A cooperative society in Nigeria has several investment opportunities open to it. But let us first trace the history of formal co-operation in Nigeria.

Formal cooperatives in Nigeria can be said to have started in 1907. Among the earliest formal cooperatives in Nigeria was Agege Planters Union (APU). This association was made up of about 400 cocoa farmers, who came together to ensure that cocoa was the major farm produce being exported from Nigeria and earning the country much needed foreign exchange.

However, you should note that, there were still other farmers' unions existing elsewhere. One of these was the Egba Farmers Union (EFU), which later joined the Agege Planters Union. The reasons for the coming together of the two unions were as follows:

- To pool resources together so that they could purchase inputs of production at reduced prices and passing the benefits to their members.
- To exchange ideas by sharing experience on how they could produce the best quality cocoa.
- To collectively fight for government recognition, this was slow in coming.
- The Ibadan Farmers Union, thereafter, recognised the need to join the already existing association of Agege Planters Union (APU) and the Egba Farmers Union.

They (Ibadan Farmers Union) sought for inclusion in the association and were admitted.

However, the initial involvement of Nigerian government in the development of cooperatives began when the European form of cooperative arrived in Africa in the 1920s. The British, after introducing it in India in 1921, brought it to Africa first- to their colonies in East Africa and then to West Africa.

In Nigeria, sequel to the unrelenting efforts of the Agege Planters Union and others, the government yielded to the farmers in 1926, when cocoa fermentation plants were built for them. From that period, the development of cooperatives became rapid because of the following reasons.

1. Government saw cooperatives as a means of realising more income.
2. Other farmers observed the APU and came to the conclusion that cooperative could be another way of enhancing their standard of living.
3. Improved techniques of farming could be better spread through the cooperatives instead of visiting individual farmer. The cost of visiting each would be much.

With government's recognition of the relevance of the cooperatives to the economic development of Nigeria, it commissioned Mr. C. F. Strickland- a cooperative expert, to take a tour of the country and see the modalities with which cooperatives could be further developed.

Strickland took a tour of the country and carried out a feasibility report, which he submitted in 1933, titled- "***The Introduction of Cooperative Societies in Nigeria***". In the report, he strongly advocated the introduction and development of cooperatives in almost all spheres of economic endeavours. He went further to draft a purposed ordinance (Law for Cooperatives Development).

Self-Assessment Exercise

Trace the history of cooperative movement in Nigeria.

3.2 Meaning/Areas of Investment

The term, "investment" involves committing a sum of money into a venture with the hope of making profit in the future. Investment implies that "you first forfeit before you can profit". Investment, therefore, involves using money to develop a business enterprise in order to earn interest or profit in the future. Now, there are also investments opportunities open to societies in Nigeria. Let us look at some common ones.

Property investment

This is an investment in building (real estate) either for outright purchase or for letting, i.e., giving out for rental purposes. Property investment is common among cooperative societies in Nigeria. For example, **LUTH/CMUL (Idi-Araba) Cooperative Multipurpose Society Limited** acquired hectares of land and allocated to members, who built and own their houses.

Property investment has the following advantages.

- The physical structure adds to the prestige and fame of the owner.

- There is regular income from rent.
- Buildings are real assets that may be used as security for bank loans
- The value of building increases in sympathy with the rate of inflation.
- A building cannot be stolen or cannot suddenly become valueless.
- Risk of destruction can be insured.

Of course, property investment has some disadvantages; these are listed below:

- Building requires a large sum of money to embark upon.
- Un-completed building cannot generate any income.
- Building a house takes time, as it takes a step-by-step approach even when the money is available.
- Insolvency of tenants leading to inability to pay rent may lead to loss of income to the owner.
- Land matters in Nigeria involve complicated legal requirement.
- Sales of property may take time to be concluded.

Investment in ordinary shares of quoted companies

This is in two-fold as regards cooperative societies. A society may invest in quoted companies on the Nigerian Stock Exchange as institutional investor or buy shares for members. For instance, LUTH Multipurpose Society Limited has assisted members in acquiring stocks (shares).

Another example is the **Nigerian Police Cooperative Society Limited** which owns a controlling share of 68.87 percent in the **NPF Community Bank**; it also has investment in banks certified healthy by the **Central Bank of Nigeria (CBN)** and **Nigerian Deposit Insurance Company**.

Ordinary Shares (also called equities or common stocks) form the most important part of a capital share. You should note that people who subscribe to company's shares are called shareholders, i.e., the owners of the company. The moment you buy a share of a company, you become one of the owners of the company. Ordinary shareholders reap the greatest reward if the company performs well; they carry the greatest risk if it fails.

Insurance products

Insurance products are varied and dynamic as the insurance market is being inundated daily with new products. Some of these products are:

- endowment and life policy
- mutual funds
- pensions
- mortgages

A cooperative can invest in any of these products.

3.5 Agriculture

Cooperative movement worldwide started from the agricultural sector, that is, farmers coming together to get inputs and cheaper rates and/or get-good prices for their farm produce. The following are some of the areas that cooperatives in Nigeria can invest in.

- Farming
- Livestock
- Poultry
- Snail farming
- Bees keeping
- Piggery
- Grass-cutter farming
- Fishery.

Cooperatives in Nigeria can also invest in the distribution of farm inputs such as fertilizers, herbicides, insecticides, fungicides, etc. The investment opportunities in agriculture are numerous.

Self-Assessment Exercise

List the investment opportunities in Agric Sector.

4.0 Conclusion

In this unit, you have been exposed to the history of cooperative society in Nigeria as well as the investment opportunities for cooperative societies in Nigeria. The operations of cooperatives in the country will be enhanced if these investment opportunities are explored.

5.0 Summary

The focus of this unit is the investment opportunities open to cooperatives in Nigeria. In the course of analyzing these opportunities, you learnt the history of formal cooperatives' development in Nigeria. This is to let you know how cooperative movement came to the country and how it touches every sphere of economic endeavours.

6.0 Self-Assessment Exercise

1. Trace the history of cooperative movement in Nigeria and explain how it affects every sphere of economic endeavour.
2. What are the investment opportunities open to Cooperatives in Nigeria?

7.0 References/Further Reading

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Mijinadi, N. B. (1988). *Group Farming Cooperatives in Nigeria*. A Report Commissioned by UNDP/ILO/FDAC Project, NIR/83/041.

Unit 3 Criteria for the Classification of Cooperative

1.0 Introduction

In this unit, you will be taken through the classification of different types of cooperatives. This will enable you to know the groups of cooperative societies in existence.

It is on this basis of the classification that you will know what benefits members derive from their type of cooperatives.

2.0 Objectives

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

- explain the criteria (or bases) for the classification of cooperatives
- explain the benefits members of cooperatives derive from their type of cooperatives.

3.0 Main Content

3.1 Criteria for the Classification of Cooperatives

There are many criteria for the classification of cooperatives. Some of these are discussed below:

Economic factors

Some economic factors determine the classification of cooperatives. There are two main economic factors:

Economic status of members

This concerns the economic status of members. Cooperatives that emerge here are as follows:

Producers' cooperative: if they are producers of goods and/or services. This can be further broken down as follows.

- Farmers' cooperatives
- Traders' cooperatives
- Craftsmen's cooperatives

Consumers' cooperative: if the members are consumers of household items, which they seek to obtain from the cooperative.

Workers productive cooperative: where workers want to obtain the best remuneration for their labour input through their cooperatives.

Sector of the national economy

Obviously, this criterion addressed the issue of what sectors of the national economy the cooperatives engaged in. Based on this criterion, we will have the following forms of cooperatives.

Agricultural cooperatives

These are the cooperatives that engaged in the agricultural sector.

Industrial/small scale industrial cooperatives

This concerns those cooperatives that engage in the industrial or manufacturing activities, mostly made up of small-scale cooperatives in the industrial sector.

Trading (wholesale/retail) cooperatives

They are cooperatives that are engaged in the trading sector.

Service cooperatives

These are cooperatives in the service sector e.g. banking, insurance, transport etc.

Legal status of the cooperatives

It is crystal clear that this criterion reveals the legal status of cooperatives, whether:

Registered cooperatives with appropriate legal authority- and if so, the cooperatives are legal entities that can sue and be sued. Registered cooperatives can further be classified into:

Cooperatives with liability limited by shares- in which case the joint liability of the members in the event of liquidation is limited to the value of shares held by the members

Cooperatives with liability limited by guarantee- which means that the joint liability of the members is limited not simply to the value of the shares held by the member, but also to the value of specified and mutually agreed multiple of value of shares held. This means he pays for value of his shares plus further payments according to the multiple which may be 2 times or 3 times, or 4 times, and so on.

Cooperatives with unlimited liability- in this case, the liability of the members is not limited to any specific amount and each member can be held accountable for all the outstanding debts of the society.

Unregistered cooperatives: these are cooperatives that have not been fully registered and operating.

Geographical area

This criterion places emphasis on the geographical area within which cooperatives are operating. There are:

Urban cooperative- which operates in an urban area; and

Rural cooperative that operates in rural areas.

Self-Assessment Exercise

Mention, at least, three of the criteria for the classification of cooperatives.

Operational framework

These are as follows:

Organizational level of operation

The scenarios here are listed below:

Primary cooperatives- these are smallest individual units in the setup. They cover limited area of operation and have in most cases, individual persons as members and may link up with other cooperatives for improved services. They may sometimes be called local cooperatives.

Secondary cooperatives- they are cooperatives of second layer, with primary cooperatives below. They are mostly formed by a number of primary cooperatives. They cover wider areas of operation. They are sometimes called regional cooperatives.

Tertiary cooperatives- these are cooperatives occupying the third layer. They are formed mostly by secondary cooperatives. Their areas of operation cover the areas of operation of the secondary cooperatives that formed them. They are sometimes called national cooperatives if they cover the whole country. At this stage, let us look at other terms commonly used for classification, but which are sometimes confusing.

Union: A union can be referred to as the coming together of primary cooperatives to form another common body. It is identical with a federation in that sense.

Federation: This is a result of joint action by a number of independent primaries and/or secondary and/or tertiaries. In some cases, a union can also be seen as a primary cooperative society in Nigeria.

An apex cooperative: This is the same thing as functionally specialized natural cooperatives, e.g. National Cooperatives Federation of Nigeria Limited.

Based on functions performed

There are some cooperatives that perform all business functions. Two forms of cooperative emerge in this set-up.

Productive cooperatives- which again exist in two forms, as listed below.

The ordinary productive cooperative – here, all the business functions of the members' private enterprise are taken over by the cooperative, while members become employed by the cooperatives, e.g. the Israeli Mushav.

The full productive cooperative- in which, in addition to the above, the private households of the members cease to exist. They are absorbed into common households of the cooperatives, e.g. Israeli Kibbutz.

Auxiliary (service) cooperative- This do not perform all functions for their members; they take over only some functions such as the supply of goods, loans and credit, etc., or marketing of the produce or investing surplus funds on behalf of members. The private enterprise of members still exists.

Based on the number of field of operation

This is a cooperative, which has only one field of activity and is as classified as-

- single-purpose cooperative, e.g., marketing cooperative.
- multipurpose cooperative, which is the one that has more than one field of activity.

Based on the relationship between the management and members of the cooperative.

Here, we can have these variables.

Traditional cooperatives- this is where members make all the decisions, and management is to execute only. Again, do not confuse this with indigenous self-help organizations. The members of the traditional cooperative, usually, make explicit demand for particular services, and management must comply.

Market cooperatives- here, members indicate broad guidelines of the business, especially their needs but the activities that are necessary to accomplish these needs are left for management. The cooperative enterprise has no close exclusive ties with member economy with other suppliers for the patronage of the member. The relationship with the member economy is purely ordinary market ties.

The integrated cooperatives- this is the type of cooperatives where members have decided to leave all aspects of decision making to management.

Now, let us look at other core considerations as regards the criterion of the relationship between management and members.

Size of membership

Here, the cooperatives are classified as follows:

Small cooperatives, mostly seen in rural areas.

Medium cooperatives, which have numerical size larger than the small cooperatives; and

Large cooperatives, which size of membership is larger than the medium cooperatives.

Self-Assessment Exercise

Below is a list of cooperatives. Against each cooperative, assign criteria that can be used for their classification.

- Group farmers' cooperative societies.

- Agricultural cooperative societies.
- Fishermen cooperative societies.
- Cooperative produce and marketing societies.
- Transport cooperative societies.
- Cooperative thrift and credit societies.
- Mechanics of commerce and tourism workers thrift and credit society.
- Confluence beach hotel cooperative societies.
- Building and housing cooperative societies.

4.0 Conclusion

In this unit, you have been taken through the different criteria commonly used to classify cooperatives. These criteria are sometimes called bases for classification. They will enable you to determine where a cooperative belongs to and the functions such cooperative is expected to perform.

5.0 Summary

In this unit, you have studied mainly the criteria for classifying cooperatives. You have been exposed to some criteria, which form the bases for cooperative classification.

6.0 Self-Assessment Exercise

1. Mention 5 criteria for classifying cooperatives. Show how you will use these to classify cooperative in your state of origin.
2. Are federated cooperatives likely to be controlled by managers, rather than by members? Discuss.

7.0 References/Further Reading

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Unit 4 Types of Cooperative Societies, Their Functions and Assessment of the Correctiveness of Available Classification

1.0 Introduction

In this unit, you will be studying the types of cooperative and their functions. It will not be possible to discuss every type of cooperatives. This is because cooperatives are formed in every field of human endeavours, that is, as regards any economic or social activity of man. Persons in such occupations can form cooperatives. Our focus will be on popular cooperatives that are seen, particularly, in the Nigerian environment.

In this unit, we will also, briefly, assess the correctness of available classification of cooperatives.

2.0 Objectives

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

- list principal types of cooperatives in Nigeria
- explain the main forms of cooperatives as listed
- describe the major functions of cooperatives
- assess the correctness of available classification of cooperatives.

3.0 Main Content

3.1 Cooperatives in the Agricultural Sector

Let us start by considering some common examples:

Agricultural cooperative societies

These are societies usually formed by farmers. It is assumed that each member has his own farmland. The reason for their coming together to form a cooperative is for them to benefit from the special services offered by the cooperative societies. These services include, receiving loans, farm inputs such as fertilizers, professional advice, among others.

Group farmers' cooperative societies

The society, usually, practises commercial farming; where their resources are expended on the common land. They work collectively on the farms and each member loses his own land and works exclusively on the common land of the cooperative. Proceeds from the farm are used for the benefit of all the members.

Fisherman cooperative societies

Fishermen/women can bring themselves together to form a cooperative society. It will be in their own interest to form such a society; because, by doing, so they will be able to:

- buy the necessary tools and equipment such as fishing nets, hooks among others for their business.
- buy canoe or boat, which is necessary for deep fishing.
- buy outboard engine that can propel their boat. This reduces the burden of paddling the canoe, which not only slows down the canoe movement but is energy sapping.

The fish caught can be sold through the society. By such an arrangement, the society ensures that the fish are preserved properly so as to sell them at a good price.

3.2 Cooperatives in the Commercial Sector

The most common ones are as listed below:

Consumer cooperative societies

The motive for people coming together to form a consumer cooperative society is to procure essential goods at reasonable prices. This is possible because middlemen are usually eliminated when this type of society is formed.

Members pool their resources together and go in search of suppliers, who can sell the goods at good prices to them. Since they cut off the middlemen from the channel of distribution, the profit that the middlemen would have made goes to the cooperative and the member. Also, members ensure that the quality of the goods they are buying is the right one since they are buying from the right source.

Self-Assessment Exercise

Carefully go through the types of cooperative societies that we have just described. For each of them, list at least three economic benefits that the members will derive from joining the cooperatives.

Marketing cooperative societies

We all know that, farmers do form marketing cooperative society. This is important because while the farmer will be concentrating their efforts on farming activities, the society will be looking for markets to sell the farmers' produce after harvest. With good market management, the society can secure better bargain and good prices for the produce. The Society can also buy in bulk, farming inputs such as fertilizers, herbicides, fungicides, pesticides, etc. which it distributes to farmers on credit.

The money for these inputs sold on credit to farmers will be repaid when the produce of the farming members would have been sold. In the same vein, money can be given to the members by the society, particularly at the period of planting and preparing the land. The money so received by farmers will be used to meet other farming expenses. This removes worries and anxieties from the farmers. Many cocoa farmers do group themselves together to form this type of cooperatives, and derive the benefits of membership through large scale marketing of product.

Transport cooperative societies

Drivers can form this type of society. Usually, there are two main reasons for the formation of this type of society. The first reason is that it enables drivers to own a vehicle, which will be used for commercial purpose. As additional money comes, another vehicle can be bought,

thereby increasing the fleet of vehicles, as well as increasing the income of the society and that of the owners.

The second reason is that the society is able to purchase, on behalf of the owners, vehicle spare parts, lubricants and accessories, which can be sold to the drivers who own their vehicles besides the cooperative motor(s), at good prices. Profit that would have gone to the spare parts dealers now comes to the society and the members.

3.3 Cooperatives According to Professional Trades

Artisan cooperative societies

Artisans exist in the formal sector of the economy; these have learnt one trade or the other and are living by their trade. They include carpenters, bricklayers, and tailors, among others. They can be grouped along with other artisans to form cooperative societies along the lines of their professions. Examples of such cooperative societies are as follows.

Mechanic cooperative societies

A mechanic cooperative society is formed by mechanics. The purpose for such society can be as stated below:

- To buy genuine spare parts for the mechanics, who in turn use them to work on their customers' vehicles. This is important, especially in Nigeria these days where fake spare parts are all over the place.
- The cooperative can give loans to the members for the purpose of enlarging their workshop or engaging in other business for those who desire.
- There can be exchange of ideas among members especially during meetings or informal gatherings...

Bricklayers cooperative societies

Just like mechanics, bricklayers can come together to form a cooperative society. Apart from getting loans, building materials can be obtained by members from their society. Also, during meetings, there can be cross-fertilization of ideas. This type of society also looks for business for their members.

A member of the community can approach the society to recommend a member of cooperative to construct his/her house. The usual workmanship fee is paid to the member, who in turn remits a certain percentage, by way of commission, to the society.

Tailors cooperative societies

It is a fact that a tailor cooperative society does exist. It is a society formed by a group of professional tailors. The benefits derived from such association are as stated below:

- Sharing experiences in respect of their profession.
- Getting soft loans from the Society with which to expand the business and meet other needs.
- Getting clothing materials, which have been bought in bulk by the society.

By buying in bulk, the society would have received some discounts and will be in a position to sell at a reasonable price to members.

3.4 Cooperatives in Savings/Investment Sector

Here are some examples

Cooperative thrift and credit societies

A cooperative thrift and credit society is very popular in Nigeria. There is hardly any state of the federation where this form of society is not found. In forming this society, members mobilize funds among themselves. Such funds come in form of registration/membership fees, savings, and fines, among others. Funds can also be procured from financial houses or financial institutions.

Usually, such external borrowing from the financial institutions is within the cooperatives movement. You have to note that loans received by members from their cooperative are usually repaid over a period of time, and the interest rate is low compared to market rates.

Cooperative investment and credit societies

A cooperative investment and credit society is a variation of cooperative thrift and credit society. As the name implies, the essence of forming such cooperative is for members to invest funds on profitable investment that can yield good dividends. To achieve the objective, members source for funds. Once the funds are accumulated, they invest them. Popular areas where funds are invested are as follows:

- Buying land collectively and sharing it among the members. The survey of the land, getting the Certificate of Occupancy (C of O), including the site plans are usually carried out by the society, on behalf of members.
- Buying shares of profitable business organisations. These shares appreciate in value as time goes on. As a result, whenever the society wants to dispose the shares off, it is done at a higher rate, thereby bringing more income to the society.
- Building houses and renting them out to tenants- either to corporate organisation and/or to private persons, is again an investment opportunity, which brings more income to the society.

Building and housing cooperative societies

In this aspect, individuals, who are so interested, can form a building cooperative society. This type of society should be encouraged in Nigeria. This is because our culture accords respect to an adult who can afford to build his own house.

This type of society provides the land, which it has purchased along with necessary documents; members can then build their own houses. The society can also provide housing loan, which will enable the beneficiary to build his/her own house. Such loan, together with the cost of the land will be repaid gradually to the society, with minimum interest.

Another practice that exists in cooperative housing society is building houses, and renting them out to members and/or general public; and then, the proceeds will be shared by members of the cooperative.

Multipurpose cooperative societies

These are societies that serve the function of multi or many purposes designed for the benefit of the members. Multipurpose societies can give loans to members. They can also procure and distribute agricultural inputs to members as well as market members' produce by securing good price for their produce.

3.5 Assessment of the Correctness of the Available Cooperative Classification

In classification of cooperative societies, we may encounter some difficulties such as the possibility of some cooperatives performing more than one function. For instance, a cooperative may do both marketing and purchasing, or provide other services in addition to their normal activity. Most cooperatives may not be conveniently fitted into one of the four pigeonholes of- **producing, marketing, purchasing and servicing**.

The activities of cooperatives show that their business operations are becoming linked together. For example, many marketing cooperatives do business both at wholesale and retail and in addition prepare the raw product for the consumer. Many purchasing associations combine retail, wholesale, and manufacturing. This means that savings from wholesale marketing, transportation, processing, and manufacturing are added to those of local marketing or retail purchasing. Savings from these combined operations greatly increase benefits of membership, we may agree, but such multi activities make the classification of cooperatives a Herculean task.

From the foregoing analysis, it is crystal clear that the available classification of co-operation is not perfect. There is the need to classify cooperatives based on their primary functions.

Self-Assessment Exercise

List types of cooperative societies and explain their functions.

3.5.1 Functions of Cooperative Societies

Economic functions of multipurpose cooperative society

- Members can receive loans with minimum Interest.
- Farm inputs like herbicides can be bought and distributed to members at reduced prices.
- Members' produce can be bought and distributed to members at reduced price.

Economic functions of agricultural cooperative society

- Members can receive loan.
- Tractor jointly owned can be used to clear farmlands and make it ready for cultivation.

Economic functions of group farmers' cooperative societies

- Members' economic needs are taken care of by the Society, e.g. food, shelter, clothing, etc.
- Education of members' children is handled by the Society.

Economic functions of consumer cooperative societies

- Members buy essential goods at reasonable prices.
- Members share profit that would have gone to the middlemen.

4.0 Conclusion

In this unit, you have been taken through major forms of cooperative; but you should note that those discussed are not the only ones, though they are popular among our people. You have equally been exposed to the benefits people derive from joining cooperatives. It was emphasized that cooperatives could be formed in all fields of human endeavours. An assessment of the correctness of available classification was also carried out.

5.0 Summary

You have been acquainted with the popular cooperatives operating in Nigeria particularly. You have also been taught the benefits members derive when they form or join cooperatives. The correctness of the present classification of cooperatives was also assessed and the classification was faulty. This leads us to the final unit of this course, where you will be learning about similarities and differences between single purpose and multipurpose cooperatives.

6.0 Self-Assessment Exercise

1. Cooperatives can be seen as the last hope of the common man. Discuss.
2. Some persons had asked you to advise them on a type of cooperative they can establish. What will be your advice, taking into consideration their economic and social activities? Your answer should not be more than two pages of a foolscap paper.

7.0 References/Further Reading

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

Owujuyigbe, S. (1995). *Cooperatives Administration and Field Work in Nigeria*. (2nd ed.). Ibadan: AnuOlu Publishers.

Unit 5 Similarities and Differences between Single-Purpose and Multipurpose Cooperatives

1.0 Introduction

In this unit, you will learn about the similarities and differences between single-purpose and multipurpose cooperatives. You are going to end the unit with examples of single-purpose and multipurpose cooperatives in Nigeria.

2.0 Objectives

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

- state the similarities and differences between single-purpose and multipurpose cooperatives
- state the characteristics and factors that distinguish single-purpose from multipurpose cooperatives
- give examples of single-purpose and multipurpose cooperatives in Nigeria.

3.0 Main Content

You have learnt, in the previous units, that a cooperative- under the law, is a group of individuals who have specific needs, e.g. to consume, to save, to obtain credit, to produce, to market, to be insured, to transport and to be transported, to build, to be housed and to have a pension. We also learnt that members freely enter into partnership in order to attain these common needs by setting up an economic enterprise which is managed by the members themselves, in a democratic manner, and to which they are bound in the following activities:

- members' participation within the cooperative
- the ways the capital of the cooperative is mobilized
- benefits and risks of members of the cooperative.

The purpose of a cooperative enterprise, whether single-purpose or multipurpose, is to provide members with the best service, at the lowest possible cost.

3.1 Meaning of Single-Purpose and Multipurpose Cooperatives

A single-purpose cooperative is a society that is mainly concerned with only one activity. For example, a thrift and credit society- this is mainly for the savings and lending purpose for its members.

On the other hand, a multipurpose cooperative, as the name indicates, offer a wide variety of services to their members such as a broad supply of farm inputs, agro-processing and storage facilities, marketing and credit supply. Multipurpose societies serve the function of multi or many purposes designed for the benefit of the members. Multipurpose societies can give loans to members, procure and distribute agricultural inputs to members and market members' produce by securing good prices for their produce.

3.2 Similarities between Single-Purpose and Multipurpose Cooperative

- Both single-purpose and multipurpose cooperatives are set up by a written statement in a constituent assembly made up of prospective promoters and members.
- Both single-purpose and multipurpose cooperatives have bye-laws guiding their daily operations.
- Single-purpose and multipurpose cooperative societies legally represent their members.
- Their purpose is to serve their members in the best possible way and not to make a profit.
- They may only serve their members or extend such service to non-members and the general public, at a higher cost.
- Both single-purpose and multipurpose cooperatives are legal entities, which are shared by the members. The members are responsible and have obligations to the equity capital of the cooperatives on equal proportion. Working capital and financial obligations towards the cooperatives are shared by all members on the basis of their participation in the affairs of the cooperatives.

Both single-purpose and multipurpose cooperatives act according to the following principles.

1. The number of members may vary.
2. Members are admitted on a voluntary basis.
3. Each member has only one vote in the democratic decision making process of the cooperative.
4. A member must acquire only one share in the equity capital of the cooperative.
5. There will be no remuneration in any form on the share capital.
6. The member will pay the whole amount of his share value in cash or in credit.
7. The cooperatives may encourage mobilisation of funds by offering a competitive rate of interest on those funds and not on share capital.
8. Surplus, when it exists, as well as potential losses, is distributed in the same financial year among the members, according to their participation in the affairs of the cooperatives.
9. In both single-purpose and multipurpose cooperative societies, when establishing them, the following details are included in the bye-laws:
 - the name of the cooperative
 - the rights and obligations of the members
 - administration and management procedures
 - sources of finance for the different activities of the multipurpose cooperative or for the single activity of a single-purpose cooperative.

From the foregoing analysis, it can be deduced that both single-purpose and multipurpose societies have some shared characteristics. These characteristics have been defined as such at the International Cooperative Alliance (ICA) congress in Manchester, held in 1995. The characteristics common to all cooperative societies, whether single-purpose or multipurpose are:

- open and on voluntary basis
- democratic control by members
- equitable member contribution to capital
- autonomy and independence
- provision of education, training and information

- co-operation with similar organizations
- the development of community concern

3.3 Differences between Single-Purpose and Multipurpose Cooperatives

Their main differences are in membership, operations, funding, investment, training, education, information etc. Taking these differences one-by-one, you will observe that, membership of a single-purpose cooperative, for example thrift and credit society, will obviously be different from that of a multipurpose cooperative society. In the case of the former, membership is restricted to only those who want to save and/or borrow money. In the case of multipurpose society, members could be those who want credit, loans, consumer goods, housing facilities, etc.

The difference in operations, that is, the services they render or provide could be seen clearly through their activities. While a single-purpose cooperative society provides a single service that of multipurpose provides more than one service. So, their major difference lies in the number of services they provide to their members.

Funding requirement for both single-purpose and multipurpose cooperative societies cannot be the same. It is obvious that what a multipurpose requires as capital outlay is greater than that of a single-purpose society.

In terms of investment opportunities, those open to a multipurpose cooperative are more than that of a single-purpose society.

The same differences are seen in the areas of education, training and information dissemination provided to members by single-purpose and multipurpose cooperatives.

Self-Assessment Exercise

List the main differences between any single-purpose and multipurpose cooperative in your area.

3.4 Factors that Distinguish Single-purpose from Multipurpose Cooperatives

There are several factors that distinguish single-purpose from multipurpose cooperatives; some of these are listed below:

Purpose of a cooperative society- as you know, the main purpose of a cooperative society is to provide the best possible service to its members, and not to create profit.

It follows that the purpose of a society is a factor that determines whether the cooperative is a single-purpose or multipurpose.

The main type of the cooperative is also another factor, which determines the singleness or the multipurpose nature of a society.

Classification of cooperatives is another factor that will distinguish a single-purpose from a multipurpose cooperative society; recall the classification of cooperative treated earlier on,

scholars are not agreed on single classification, as there are many forms of classification of cooperatives.

For instance, a certain classification could be based on:

primary cooperative- whose members are individuals.

secondary cooperatives- whose members are primary cooperatives

tertiary cooperatives- whose members are primary and secondary cooperatives (generally these are federations of cooperatives)

On the other hand, cooperatives may be classified, as well, as:

single purpose cooperatives

multipurpose cooperatives- which has more than one function.

You should note that most cooperatives in the world are in fact, multipurpose cooperative.

Cooperatives may also be classified as follows:

1. Cooperatives where members are also the users. In this category, are consumers' cooperatives, savings and credits cooperatives, housing cooperatives, insurance cooperatives etc.
2. Cooperatives where members are not the users of the cooperatives. In this category you may find cooperatives such as producers' cooperatives (be it agricultural, industrial, handicraft or services cooperatives), transport cooperatives, construction cooperatives marketing cooperatives.

Other factors that distinguish single-purpose from multipurpose cooperatives are only listed below as we cannot explain all due to space constraints. These factors are:

- i. membership
- ii. types of general meetings
- iii. extra-ordinary meetings
- iv. committee of the cooperative; and
- v. the financial structure.

3.5 Examples of Single-Purpose and Multipurpose Cooperative Societies in Nigeria

There are several cooperatives in Nigeria, made up mostly of Multipurpose Cooperative societies. Even when a society starts as a single-purpose cooperative society, it may later diversify its operations to include more than one function. An example is the **LUTH/CMUL (Idi-Araba) Cooperative Multipurpose Society Limited**, which started as a single purpose but later added other functions. Its bye-laws state that “the primary objective of the society shall be granting of loans to members”.

However, over the years the LUTH Cooperative Society began to be pressurized to purchase land for sale to members, which necessitated a change of status and name. The society then applied for re-registration as a multipurpose cooperative society. This means that, even though the main objective of thrift and credit society is granting loans to members, the multipurpose society, as the name suggests, is allowed to venture into other business such as land/estate, investment, buying of shares, household items, ,etc., as well as sales of consumer goods and food stuffs at moderate rates.

Another example is the **Nigerian Police Cooperative Society Limited**, which was established in April 29, 1977, as a multipurpose cooperative society/welfare organisation with the aim of improving the socio-economic life and savings culture of members of the police force.

The society, which is registered with the **Lagos State Cooperative Federation (LASCOFED)** and affiliated to the **Cooperative Federation of Nigeria (CFN)** started business as a full, fledged cooperative society. Its 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 few civilian staff.

In terms of investment profile, the police cooperative society owns a controlling share of 68.87 percent in the **NPF Community Bank**. The society also invests part of its funds in short-term deposit in banks certified healthy by the **Central Bank of Nigeria (CBN)** and the **NDIC**.

The Society's welfare scheme includes the provision of funds as loan for produce buying purposes on fair terms, and at 5 percent interest rate. The loan ranges from N50, 000.00 to N200, 000.00, payable over a period of between 24 to 60 months.

Self-Assessment Exercise

Look around you and select a single-purpose and multipurpose cooperative societies. Compare their activities.

4.0 Conclusion

In this unit, you have learnt the similarities and differences between single-purpose and multipurpose cooperative societies. Practical examples like the **LUTH/CMUL (Idi-Araba) Cooperative Multipurpose Limited**, which transformed from single purpose to multipurpose society, and the Nigerian Police Cooperative society limited, which started as a multipurpose Cooperative have been mentioned.

5.0 Summary

In this unit, you have been exposed to the distinguishing factors between single-purpose and multipurpose co-operatives. It is incontestable that the knowledge you have received in this course provides the foundation on which to build further knowledge in cooperative management.

6.0 Self-Assessment Exercise

1. Carefully analyze the similarities and differences between a single-purpose and multipurpose cooperative societies.
2. Select a single-purpose cooperative and multipurpose cooperative from any part of the country and discuss their activities.

7.0 Reference/Further Reading

Zvi, Galor. (2008). *Cooperative Law*. Oklahoma Food Cooperative. Retrieved on July 29, 2009 from <http://oklahomafood.coop/cooplw.php>