

# Serving the Nation through an Effective Cooperative System

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Cooperative societies in Sri Lanka have an existence of one hundred years. During this period there were two world wars, natural and man-made disasters, epidemics, change from colonial rule to a party based democratic system, periods when the cooperative system was given patronage by government and otherwise. The important fact to remember is that in spite of these vagaries, the cooperative system has survived in this country for one hundred years and with all the failings that are attributed the people at large has faith in the system. The elitist and the upper middle class families have drifted away from the cooperatives and the patronage of cooperative societies are mostly from among the poorer sectors both in the urban and the rural areas. This is the very reason that all efforts should be made to make the cooperative system effective in alleviating poverty and be an answer to their economic problems. There are many constraints, but by following an enlightened policy in respect of the cooperatives for a period of time, it could be achieved.

With 70% of the population being Buddhists and with a Buddhist tradition of more than 2300 years, Sri Lanka is essentially a Buddhist country. One of the main reasons for the survival of the cooperative system in Sri Lanka is because the cooperative philosophy is closest to Buddhist economic thought. Democracy, cooperative effort to increase productivity, sharing, the importance given to man over money and to social capital are valued principles in Buddhist economic thought as well. Sri Lanka, under the Buddhist kings of yore had a fully developed economic system based on the aforesaid principles. The maintenance of the irrigation system at the lowest level was on cooperative lines. The tasks were shared among the beneficiaries for the common good. The responsibility was theirs and maintaining them were acts that bring merit always (*sada punnam pavaddhati*). Merit replaced money, as the driving force. Along with money come competition, rivalry, jealousy, and thoughts of hatred and destruction; with merit comes cooperation, amity, joy on others success, loving kindness and growth. This is the highest form of cooperation practised in Sri Lanka for

the well being of man and his/her environment. These cooperative ideals are deeply rooted in the people of this country and not so much the artificial principles imported under colonial rule and articulated parrot-like today without indigenising those principles to harmoniously blend with the rich cooperative traditions of this country.

Western cooperative principles grew in a particular historical context. Religious rivalry among Christian faiths has brought untold misery. From the 16<sup>th</sup> century holy wars, crusades, thirty years and hundred years religious wars had resulted in Religion being even called the 'opiate of the people'. Religious persecutions were so intolerable that many fled Europe to North America, their New Haven. Hence the first of the rules of the Rochdale pioneers, who started the present cooperative movement, was religious and political neutrality. In countries where Buddhism and Hinduism prevailed, religion was never a divisive factor resulting in internecine wars and this imported principle impacted adversely on the development of an indigenous cooperative ideology. The following quote from a world-renowned authority on cooperative ideology will explain.

'However, there is no doubt that, for an effective programme of cooperative development, there is no real alternative to a conscious effort directed towards formulation of an indigenous cooperative ideology. The foreign ideas and experiences are no doubt relevant but the construction of the ideological framework must be primarily a local endeavour. A worthwhile cooperative theory must be conditioned by its environment. It is only then that cooperative ideology is likely to be internally consistent and externally in accord with the overall socio-economic ideals accepted by the country. These are necessary conditions for making cooperative ideology meaningful and effective.'

Such a harmonious blend did not happen in Sri Lanka for political reasons as well. The British colonial rulers followed a policy that is well documented, to distance the close link between the indigenous people and the village temple. In respect of cooperative development, the façade that was used was the principle of religious neutrality. Even in localities where 100% of the population were Buddhists, the Buddhist clergy

that gave leadership to the people in all spheres of life were deliberately kept out. Hence, cooperative societies in this country developed as an adjunct of the government under the watchful eyes of the rulers. From the beginning, therefore, the growth was atrophied and the cooperative movement, if it could be called so, did not blossom as should have been.

In fully sovereign or non-colonial countries the story was different. D.R. Gadgil, a leading economist and cooperator notes that 'the term 'cooperative' means many things. Cooperation in USA, means one thing, in Russia another, in China a third thing. Again in Scandinavia, it is different.'<sup>2</sup> In all these countries it had an independent growth. Two reasons could be adduced for this not to happen in countries like Sri Lanka. The mistrust the colonial government had in the indigenous people was one and the need to keep all institutions under strict supervision or control because of the fear of any institution developing in a manner that would threaten the power base was the other. That this was intentional could be adduced from the fact that even when limited self government was granted to Sri Lanka under the Donoughmore Constitution the positions of Chief Secretary, Financial Secretary and Legal Secretary were held by the colonial rulers to be the 'Watch-dogs of the Constitution'.<sup>3</sup>

The lack of a cooperative ideology based on the country's culture and traditions is due to the factors mentioned above. Hence, we find two types of cooperative effort in Sri Lanka, namely, a voluntary, self-reliant and a successful cooperative effort unimpeded by the bureaucracy, and an externally motivated, dependent, highly politicised cooperative effort. These are historical realities and the country has to live with it.

There are various ways that countries have adopted the cooperative system to suite their respective political, economic and cultural environment. The cooperative system that operates in Sweden and South Korea are often referred to as successful models for emulation. The operation of cooperative societies in Sweden is very professional and operational decisions are taken by the paid staff and not by the elected members. In fact, in Sweden there are two cooperative movements - the KF for consumers and the LRF for agriculture. Sweden has thus found a workable solution to evade interference by political parties. The KF, which is consumer and mainly urban, has the support of the labour party and has been in power for

long. On the other hand, the LRF, which is agricultural and rural, has the support of the liberal party, the main opposition. There is intense rivalry between the KF and the LRF. The writer remembers an incident when the LRF that advertised the sale of one of its super stores preferred selling it to a private chain rather than to the KF brazenly violating one of the cooperative principles.

In South Korea, the national level or apex agricultural cooperative organisation had as its President or Chairman, the Minister in charge of the subject of agriculture, who was of cabinet rank. It was fully bureaucratized and for example, the functions, of Sri Lanka's Department of Cooperative Development were fully internalised within the system. There is no external agency like the cooperative department supervising or auditing its activities. The whole system was bureaucratized and an arm of the government. However there is no visible hiatus between responsibility and accountability. It is a development unique to South Korea and external factors especially the conditions after the Korean War necessitated such a development.

No country can ignore its history. In the development process one has to take cognisance of this factor. It is foolhardy to think of depoliticising the cooperative system so long as the government in power is one of the main stakeholders. At times of disaster or of scarcities the most reliable and pre-tested system for fair distribution of essentials is the cooperative. It goes back to the time of the Second World War, when the need arose to develop an effective but inexpensive system for fair distribution. Respected members of the locality were called or even co-opted to perform this essential function. The main supplier of goods was the Cooperative Wholesale Establishment (CWE), which was a totally owned government venture, with representation of the cooperative societies in the Board of Management. The *amicus curia* when disputes arose between the CWE and the cooperative societies was the Commissioner of Cooperative Development and the Registrar of Cooperative Societies, who was ex-officio a member of the Board.

The ethos, until the intervention of the open economic system, was such that for any venture where the government was to provide credit, cooperative societies were formed. There are many types of cooperative societies and except for a few were established at the instance of government policy. The function of the department was to assemble the people engaged in a particular industry and after conducting few awareness programmes register a cooperative society or societies showing the carrot of the privileges that would be enjoyed by such association. To the extent that there was no compulsion, it was voluntary; but if they were to have access to credit or the facilities provided

membership of the cooperative society that was formed had to be obtained. There was no ideological bondage but only self-interest that motivated membership.

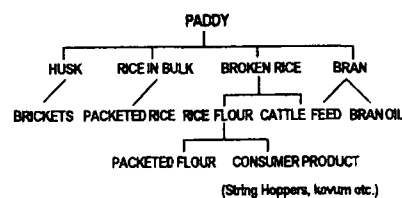
With the open economy, there was a downgrading of the cooperative system. Alternate organisational structures were thought of and experimented. Some were the result of conditions laid down when obtaining development finance from the World Bank, the Asian Development Bank etc. The links the cooperative societies had with national level organisations like the CWE and the People's Bank were unceremoniously severed. The natural development should have been otherwise. As was suggested by the Cooperative Management Services Centre (later the Cooperative Institute of Management) in mid seventies, the membership of the CWE and the People's Bank should have been given to the cooperative societies by the sale of government shares to them. Like with colonial rulers of the past, there was a fear of government of a fully developed independent cooperative system. Asking questions at the Annual General Meeting by representatives of the cooperative societies were irksome. Rather than being responsible to the membership or cooperative shareholders, it was changed by amendments to the Law to make the Minister in charge the supreme authority.

During the early period after independence what affected cooperative development most was change of government. The government in power (1965-1970), for instance brought legislation for the Minister in charge of the subject of cooperatives to supersede the Board of Directors and appoint a care-taker Board for a specific period. The legislation was tactically allowed to lapse. But from mid 1970's and after, even changes in ministerial portfolios without a change of government affected cooperative development. The subject of cooperatives were linked and de-linked according to the fancy of Ministers, who demanded certain subjects or institutions. When the subject of cooperative development was de-linked from agriculture and linked with trade and commerce, the emphasis of the department was distribution of consumer goods rather than production. This compelled the Ministry of Agriculture to develop its own system for distribution of production inputs. Further, when cooperatives were de-linked from trade and commerce and linked with small industries, the plan to cooperativise the CWE by sale of shares to cooperative societies and develop the CWE as a true apex cooperative organisation went with the wind. When later the government wanted to shed its shares, the first offer should have been to the cooperative societies because the CWE was formed to be the main supplier to the cooperative societies and the latter have contributed most to increase its assets base. Unfortunately the government at the time had no faith in the cooperative system and in their thinking cooperatives have no place in an open economy. So long as the cooperatives are considered an

arm of the government this may be true. But any person travelling to the Scandinavian countries, the EU, USA or Canada with open eyes would see the important and effective role they play to safeguard producer and consumer interest.

Sunkist, the famous brand name for citrus and processed agricultural products, in the State of California, USA with a turnover exceeding the GNP of many a developing country, is a cooperative society. There are similar trade names, famous the world over, run on cooperative lines. The dairy industry in India with the trade name AMUL is a multi-million co-operative society that had revolutionised that industry. The Warananagar Sugar Cooperative Society and other sugar cooperative societies in the state of Maharashtra are more efficient than private enterprise and had brought many benefits to the producer farmers to improve their quality of life. In any private organisation the contract with the producer is only as a supplier but in a cooperative venture it is more than that. Of cooperative societies world-wide, the most successful comparatively are the agricultural producer cooperatives. "The effectiveness of these cooperatives in terms of promoting and protecting the interest of small farmers, increasing production and productivity, ensuring higher prices and accelerating the process of social and economic development in the area of their operations had been remarkable and without parallel."<sup>4</sup>

The success of this type of co-operative society is because the membership is of producers around a processing unit. The number of members depends on the capacity of the processing plant. Agricultural production is very costly and the sale of raw produce either to the State, a cooperative society or a private enterprise will not solve the problem of the small producers. It is usual to experience a slump in the price of a commodity when there is a bumper crop and this has a direct impact on the primary producers. Money is in the value added and in Sri Lanka the failure of the cooperative system to benefit the primary producers and alleviate poverty is because the value added does not go to the producer, but taken down the line by the processors and others. The chain in respect of paddy is given for purpose of illustration.



At every point of conversion there is value added. It may be ridiculous but it is true that the guaranteed purchase price of a kilogram of paddy from a farmer who toils for 3-4 months is what the consumer pays to purchase 16 string hoppers, viz. Rs.16.00 !!

When the producer owns the processing plant the value added under the cooperative system goes back to the producer as a second payment depending on the amount of produce supplied by the producer to their own processing plant. The quality of a final processed product depends much on the quality of the raw material. For increasing productivity of the Plant it is important that the raw produce brought to the Processing plant are of the highest standard. If it is a Rice Mill owned by the paddy producers, it has a stake to improve production and to improve productivity both at the farmer and the mill levels. Hence extension work and keeping the farmer informed of the most efficient post-harvesting techniques are legitimate activities of the Mill. The benefits are mutual and inter-linked.

There was an effort by the writer, when he was a FAO consultant on rural institutions, credit and marketing to introduce this system to Sri Lanka. It was suggested with facts and figures to the Chairman of the Mahaveli Authority in mid 1980s, to introduce processing cooperatives around rice mills in the Mahaveli area rather than the traditional multi-purpose cooperative society system, with limited advantages to the producers. After listening patiently, the curt reply was 'do your experimentation outside the Mahaveli area'. The present plight of the Mahaveli farmers is an epitaph of bureaucratic arrogance. Except for the Mill at Girandurukotte started with Japanese aid, which too is not functioning now, private persons, who were even given concessions by the Mahaveli authorities, ran all other mills.

Is there a way forward? There is; but the agenda of developing such a system may not get completed between inter-presidential or inter-parliamentary elections. Success of the system also means that the perennial promises of politicians to supply production credit and marketing loans to purchase paddy etc, and highly publicised politically motivated emergency operations to save the 'poor farmers' etc. get off the politicians' agenda. Fifty years of post independent politics give ample proof that the political system does not want a permanent solution to the issues that confront both the consumers and the producers because of the fear that such solutions would make politicians lose their hold in the rural economy.

In conclusion, some of the measures for consideration to make the cooperative system effective in order to serve the nation and alleviate poverty are given below :

1. Allow the present MPCSSs to remain as the playground for politicians. They have a stake and they will ensure that with whatever hardships they will survive to perform certain essential functions required by the State like equitable distribution of consumer goods, being an agent to purchase agricultural produce etc.

2. De-link the two functions of cooperative development and registration of societies. At present it is the responsibility of one person, namely the Commissioner of Cooperative Development and Registrar of Cooperative Societies.

3. Bring legislation if necessary to enable the Registrar of Cooperative Societies to work as a separate department or even to function as a special section of the Registrar of Companies for registering societies or associations based on accepted cooperative norms or principles that are given below :

- i. Open and voluntary membership of those willing to accept the responsibilities of membership.
- ii. Democratic control with equal rights of voting namely one member one vote, which is in contrast to private companies where voting is based on the number of shares.
- iii. Share capital to receive a strictly limited rate of interest.
- iv. Distribution of surplus, which is the same as net profits, among the members (shareholders in a company) in proportion to their transactions with the society or association, after providing for common services and development of the enterprise as determined by the membership.

4. Develop the same legal relationship that the Registrar of Companies has with the organisations that register with it, in respect of cooperative societies that register. In some countries the term 'cooperative' is not used in the name and it is not necessary to do so. So long as the society that is registered accepts and abides by the broad principles referred to above in the conduct of its business and are written into the instrument of registration any concessions granted to cooperative societies should be granted. In order to distinguish from private companies where benefits flow according to the number of shares held a term such as mutual, joint, or voluntary may be used. A society that is registered under this scheme would have the same statutory obligations viz., filing the annual returns and changes in the Board of Management, registering constitutional amendments after prior approval etc. etc. similar to any private company that registers with it. But the Registrar will have no right to interfere in the activities of the society similar to what happens under the present scheme of things.

5. Special encouragement should be given to the formation of processing cooperative societies where the membership will be confined only to producers of a single commodity e.g. paddy, milk, vegetables or even a specific commodity like tomatoes, rubber etc. There has to be a package of incentives such as low interest credit

line, tax concessions or tax exemptions for a period of time, grants for purchase of plant and machinery (similar to the recent grant announced to bus owners) etc. Relevant government departments and ministries should provide free technical assistance. Banks should play a major role and should become a major stakeholder for the success of the venture. A leaf may be taken from venture capital provided by Islamic banks.

6. The role of the Department of Cooperative Development is to provide technical assistance prior to forming these societies or associations in order to ensure that the cooperative principles and the working of such principles are understood. A condition of registration should be a certificate that the members have undergone such training. Once a society is registered under the proposed scheme there is nothing more for the Department to do except on invitation by the society.

7. The ownership of the CWE with all its assets should be transferred to the cooperative sector by allowing the cooperative societies to buy its shares.

8. The ownership of the Paddy mill started by the Mahaveli Authority should be transferred to the paddy producers of the catchment area of that paddy mill. Paddy farmers in major paddy producing areas should be given adequate incentives to start cooperatively owned paddy mills so that they benefit from the value added.

9. The ownership of MILCO (Pvt.) Ltd. should be transferred gradually to the milk producers organised as milk producing cooperative societies so that the value added flows back to the milk producers and their quality of life improves.

The cooperative form of organisation has a proven track record in both the developed and developing countries. There are broad principles that distinguish a cooperative venture from a private business venture. Any association accepting those principles whether the term cooperative is used or not should be specially treated and encouraged because the owners of such ventures are the users themselves coming together for their mutual benefit. They are not quoted companies and however much these ventures are successful the value of a share remains the same. The cooperative form of organisation is the answer to some of the ills of an open economic system and has an important role to play in a developing agricultural economy. Cooperators always live with hope and when celebrating its centenary a fresh look at the cooperative system as it operates in Sri Lanka is the need of the hour. ■