CHAPTER-3

Review of literature and lesson from abroad through the reports of International co-operative alliance:

3.1 Co-operative Movement in Israel

Almost every country in the world has developed a dominant type of co-operative either owing to chance or to economic and social reasons. Israel is a supreme example of integrated co-operation, i.e. in the establishment of multipurpose societies which are dominant in Japan, Poland, Yugoslavia and Czechoslovakia. It would not be correct to look at the co-operative movement in Israel in terms of Kibbutzim.

We may now make a brief reference to the development of two types of societies in Israel after its establishment as a state. These two types of societies are (a) Credit Co-operative and (b) Agricultural Co-operatives:

(a) Credit Co-operatives:

These societies give credit to their members, accept deposits from the general public and conduct general banking operations excluding foreign exchange, for members and non-members. Almost all Jewish Credit Co-operatives have been of the Schulze Delitzsch type. In 1956 a new type of credit co-operatives, viz. Mutual Aid and savings Co-operative was registered. These societies act as agents, grants loans to the members and collect outstanding loans. At the main business of the credit co-operatives is to advance loans - seasonal, medium, long term - to their members. Some credit co-operatives are also engaged, on a small scale, in co-operative purchase of agricultural supplies; assembling of produce to be marketed
by a central marketing society; and in the joint use of agricultural machinery. There is practically no difference between urban and non-urban co-operatives.

(b) Agricultural Co-operatives:

There are single and multipurpose agricultural co-operative societies in Israel. The farmer confine themselves to one activity only, such as, marketing, purchase and sale of agricultural supplies, distribution of water etc. The multipurpose agricultural co-operatives are engaged in purchasing and / or marketing, processing, joint use of agricultural machinery, water resources etc. A few of these co-operatives also advance loans to their members. The central agricultural co-operatives process and market a variety of products. There are also regional central agricultural co-operatives for specialized services, such as joint purchase of agricultural supplies and for seed culture and ancillary processes. The primary agricultural labour-contracting societies are relatively small in terms of membership and business turnover. Kibbutzin are groups of persons with similar economic and social status and a common political ideology, who decide to establish to co-operative communities on socialistic principles i.e. each should labour for the community according to his ability and share according to his needs. There are no wages except in kind and service. They combine co-operative ownership of all property except personal belongings – purchasing, production, marketing, consumption, rearing and educating children, cultural, recreational and other services. In a kibbutz everyone enjoys the same rights and assumes the same obligations. Theoretically, the use of wage labour is prohibited but in practice, it is in use. Most of the temporary but absolutely necessary measures have been taken to
reduce unemployment among the new immigrants and to increase agricultural production within the shortest possible time. According to the model rules, a member leaving the kibbutz is not entitled “to withdraw any private belongings or money which he may have turned over to the kibbutz when accepted as a member, unless such return was specially provided for in a written agreement between him and the kibbutz” Practically, all the kibbutzim are members of one or the other federation. These federations are known as Tnout (movements). These are autonomous movements but are subject to guidance of and are closely linked to one or the other labour political parties.

As generally believed, Israel is not the birth place of communistic settlements. This pattern of life was found in Europe in the Middle Ages and in Eastern and North-Eastern United States in the 18th and 19th centuries. Such settlements are still found in Canada and the United States, in Paraguay and Uruguay. There were mobile and temporary communication groups (kibbutzin) in Palestine before 1910. The kvutza, established in the Jordon valley in 1910, is generally considered the first settled communitarian group. The communistic settlement outside Israel, with a very few exceptions, are religious sects. In Israel the kibbutz movement is a secular movement, with a strong nationalistic and political fervour Ein Ganim was probably the first Moshav, a co-operative of small holders’ settlement, established in Palestine in 1908. Even the pattern of the moshar was found in Europe much earlier – in Czarist Russia in the second half of the 19th century and in Cyprus and Canada in the last quarter of the 19th century. The kibbutzin and the moshavim are thus the specialty of the Jewish Co-operative movement in Israel. In no other
country in the world there are so many kibbutzim and moshavim as they are in Israel.\(^2\)

### 3.2 Behind the Success of Co-operatives in Israel:

Co-operative\(^1\) in Israel has shown they can be as profitable as any private company. Mr Mully Dor of the General Co-operative of Labour (Israel) Ltd, who was in New Delhi\(^2\) recently to attend a seminar organized by the International Co-operative Alliance, spoke to Vichitra Sharma about the role of co-operatives in a market economy.

The co-operative movement in Israel has successfully coped with the challenge posed by the government’s all out support to market economy and encouragement to privatization. In less than a decade, through re-organization and efficient management systems, the co-operatives have shown that they can be as profitable as any private company.

Mr Mully Dor, an ardent advocate of co-operative movement in Israel and Manager of Human Resource Development and International Activity of Hevrat Ha’ovdim (General Co-operative of Labour, Israel Ltd) maintains, “Our experience shows that when private companies have three or four partners, a larger group of competent personnel can manage a venture as effectively. The co-operatives have to realize the writing on the wall and not look for subsidies but create distribution and marketing networks to compete for a share of the economy. However, this is only possible if politics is kept out of the co-operative movement.
"The companies which were backed for political considerations collapsed in due course" he added.

Mr Dor is a senior member of the Labour Party and an advisor to Prime Minister. He was in New Delhi to attend a seminar organized by the International Co-operative alliance. The programme focused on the co-operative movement in India and the progress in co-operatives worldwide. Mr Dor is also known for conducting a study programme in "Co-operative in Market Economy".

According to Mr Dor, around 20 per cent of the Israel population is directly employed by the co-operatives and the objective now is to create more employment opportunities for new immigrants, recently discharged soldiers and residents in development areas.

"In the mid-80's, we faced the same situation as India is going through at present. They announced that it (the government) was not responsible for the co-operatives, no more subsidy to the labour force. Each one was for himself – this was free economy concept," he said, "As a result of this policy inflation touched 1000 per cent per annum in 1985."3

However the co-operative failed to realize the seriousness of government and a period of disaster followed, "Finally we worked out a programme for a turnaround." The first step was to identify the bleeding enterprises and look for sources to generate cash. Added to this was a change in managerial approach. The rehabilitation and re-organization resulted in bringing down the co-operatives from 100 companies to 30 and the employment force from 32000 to 16000. The results
were phenomenal. It took 40 months for the companies to break even while the
“average turnaround period had been forecasted 4-5 years” he added.

The co-operatives are active in every sector of Israel’s economy, including
industry, housing and construction, financial institutions (like bank and
insurance), agriculture, retail marketing and consumer co-operative, transport (80
per cent of Israel’s city buses), service co-operatives, foreign trade, publishing
companies, newspapers, schools libraries and theatres.

Mr Dor’s advice to co-operatives is that like any private sector company, they
must educate themselves of the markets, the environment and judge the
management according to the balance sheet.

One of the important contributing factors for the co-operative success stony in
Israel is the relentless efforts by professionals to strike to keep politics and advice
politicians of the Labour Party out of this business. “The young leadership of the
Labour Party made it clear that business and politics can’t mix. We did not-want
the political crisis to be identified with the business enterprises. Therefore, we
decided to give the companies to those who could run and every year, according to
the economic results, all managerial levels undergo changes,” he explained.

In the case of India, Mr Dor believes that the co-operative could be a very
good tool for India’s economic growth. “Sometimes, it’s the only way people can
create a working place for themselves and allocate a lot of money to work with and
share among themselves."
3.3. Glimpses of Co-operative Movement in Malaysia:

The Co-operative Movement in Malaysia is more than 75 years old. At present there are 4000 registered co-operatives with 4.52 million members and 2.90 billion shares. The co-operatives here do not put profits as their goal. Co-operatives are treated as a unique business venture in terms of their philosophy and objectives, modus operandi and their relationship with the society. The co-operative movement is a concept that blends idealism with pragmatism.

Unlike private firms that operate on investors' capital, the co-operatives operate with support from 15 members. The private sector places importance on the economic reforms and profits. Co-operatives place importance on economic, social and cultural development. The co-operative movement in Malaysia is based on ideas and concepts established to counter-balance the extreme defects of the capitalism system.

The potential of the co-operative sector as contributory factor to the economic and social development of Malaysia does not get the attention that it deserves.

The change in the economic structure of the country and with the decrease in the government and public roles in economic activities, along with implementation of privatization, has strengthened the role of private sector in Malaysian economy. Such a scenario has resulted in a general perception that co-operatives are not relevant in the liberal economic environment dominated by private sector.
There are a large number of people in Malaysia who considered that cooperative sector and co-operative movement are still relevant in the new environment. The co-operatives are the society oriented enterprises established to fulfil the peoples' requirements and needs. The profits of such co-operative enterprises if transferred out, will be for investment purposes and the returns will be brought back to the people. Further it is felt that co-operatives manage to balance the monopoly of the private and co-operative sectors by leveling competitive and economic power.

The co-operatives create leverage for small manufacturers to prevent them to become victims of influential cartels. The co-operatives eliminate the use of middleman in business operations and the prices of goods under co-operatives can be controlled to reasonable levels. So the co-operatives are considered to be the best way to run a small business especially for rural people.

Land and Co-operative Development Ministry, Co-operative Development Department and Co-operative College of Malaysia have been entrusted by the Government to supervise and assist development of the co-operative sector in Malaysia and to work in hand in hand with the co-operative movement to ensure its stability and success in future.

Amendment of Co-operative Legislation

The Land and Co-operative Development Ministry amended the Co-operative Legislation in 1993 to promote co-operative development. The Co-operative Development Department has been asked about possible weaknesses in
the present co-operative law. They propose to make more amendments in the law if these amendments are needed.

The Government of Malaysia is making efforts to restore more than 300 dormant and inactive co-operatives due to disinterest of the members and faculty management.

The National Co-operative Union of Malaysia is called ANGKASA. The Government of Malaysia has recognized ANGKASA as the apex body which represents the co-operative movement at the national and international levels.

The ANGKASA is playing a critical role in promoting co-operative education. The education foundation of ANGKASA is based on the principles that teacher should seek the students and the course should be based on the participants' request. In general, co-operative members who live in the rural areas, do not have to come to the city especially Kuala Lumpur to attend the training courses. The trainers move on to the rural areas. This procedure encourages thrifty spending and cuts traveling expenditure and at the same time, encourages participants to learn in the environment that they are familiar with.

3.4 Co-operative Movement in Germany

Germany is the birthplace of co-operative credit movement in the world. In India, the inspiration for the co-operative movement came largely from Germany. Mr Fredrick Nicholson, who was sent to Europe to study the working of agricultural banks and suggest measures for the introduction of co-operative
movement in India, based his recommendations mostly on the pattern of credit societies in Germany. His important advice to Indian co-operatives, “Find Raiffeisen” explains for itself the importance he gave to the Raiffeisen system of credit as a means of solving problems of indebtedness in India. The study of German credit system is thus of special interest in India.

It were the same patent circumstances, famine, poverty, exploitation and indebtedness, which necessitated the introduction of a new idea in Germany in the middle of the nineteenth century. The working classes in the country were heavily under debt and were greatly exploited by the money-lenders. Mostly, trade was also in the hands of Jews and the farmers bought their requirements as sell as sold their produce through this class. It is reported that almost every house and farmland was encumbered with debt. To add to this, famines accrued frequently. When such was the condition around, two pioneers, Mr F.W. Raiffeisen and Mr Hermann Schulze moved by the miserable condition of farmers and labourers started making experiments with various method of relief. Mr Hermann Schulze (1808-1883) was a judge and the mayor of Delitzet. In 1849 he founded his first friendly society of shoemakers with the object of making purchases of raw material in bulk and supplying it to members. In 1850 he founded his first credit society in his native town. Its object was to raise funds to be lent to its members. The members of his banks grew rapidly and in 1861, he called a congress of his banks which resolved to set up the General Union of German Industrial Societies. He remained its director till death. He also secured in 1867 the first co-operative
Law from Prussia which was extended to the whole of Germany in 1889. At the
time of his death there were 1926 People’s Bank.\textsuperscript{7}

**Progress between 1914-1945**

The movement was badly affected by the inflationary conditions that
followed the first Great War Deposits decreased and demand for loans increased.
The Prussian Central Co-operative Bank, at this state, assumed the role of Apex
Bank for the whole of Germany and with most of the loans obtained from the
Government came to the rescue of the movement, which was able to establish its
position again by 1930. During the Hitler regime, the movement got a good fillip.
As the cultivators were prohibited by law from alienating their lands, the
commercial banks which advanced only secured loans, failed to give
accommodation to agriculturists. They were therefore forced to look to the co­
operative societies for the fulfillment of their needs. In 1940 there were 38,483
societies, against 40,713 in 1935 and 21,458 in 1915.\textsuperscript{8}

**National collapse of 1945 and after**

After the German defeat in 1945, the country was divided in German
Democratic Republic and Federal Republic of Germany. Co-operative movement
has since developed on different lines in these two countries.

**German Democratic Republic (GDR):**

Co-operative movement in GDR comprises mainly co-operative farms and
consumers stores.
Co-operative Farms:

Immediately after its formation, the socialist Government in the country distributed about 1.5 million hectares of land, earlier belonging to war criminals and big landlords, amongst the farmers without compensation. In order to help them take advantage of technological advancement, the farmers were persuaded to pool their lands in co-operative farms. To begin with co-operatives farms were comparatively small in size but, by and by, these farms were merged into bigger ones. The size of a co-operative farm on average was 360 hectares in 1960. It was 714 hectares in 1972. In 1986, there were 3890 farming co-operatives. Trend towards further enlargement is still continuing.

All members work on the farm and get monthly wages. Normally a worker gets 18000 to 20000 marks per year as wages. At the end of the year, members also get loans on the basis of profits earned by the farm. In case a member leaves the farm he ceased to be a member and gets no share in the income of the farm. On the other hand any GDR citizen who is desirous of working on the farm can join it as a member.

All farm-produce is purchased by the Government at fixed rates. Surplus in the farm is generally invested for further development of the farm, purchase of new machines and providing amenities to the members.

3.5 PACS in India

Dr Arup Maharatna, Lecturer in Economics, University of Burdwan, made a paper on “Co-operative rural credit: A study of two societies in Birbhum” The purpose of his study was to examine very closely the problems and contradiction
involved in the functioning of co-operative rural credit especially in the context of more or less traditional social structure.

He said, "The small and marginal farmers who constitute the largest proportion of the total members of the societies are usually found spending the money taken as loans from the society in meeting the urgent and pressing needs for their subsistence and sometimes for other unproductive consumption, rather than in investing for higher level of production." It indicates that this tendency for using loans solely for the consumption purposes presumably showed the lack of sense of co-operation and belongingness in the minds of the members of the co-operative societies. He suggested for the necessary education and the campaign for raising the feeling of co-operation and belongingness should be emphasized.

Mr C.D. Singhal, Dy General Manager, Haryana state Co-operative Bank made a case study on "Evaluation of Role of Primary Credit and Service Societies (PACS) in Haryana." His object was to ascertain the extent, adequacy to which co-operative society has been able to channel its services at the grass root level.

He found from the financial position point of view that the society (The Dheen Primary Co-operative Credit Society) has strengthened its credit worthiness over a period of last 10 years (1975-76 to 1985-86) by expanding loan portfolios and by taking up new business of agriculture inputs and public distribution schemes of consumer goods. In respect of Recovery Performance the society recovered 68% rupees against State average recovery of 64%.
In pursuance of the policies of the State Government the society has made credit arrangements for people of different walks for their various economic activities. During 1985-86 Society disbursed loans of Rs 21.98 lacs of which 11.85 lacs was advanced to weaker section of the society.

He interviewed 31 persons. 40% of them were satisfied for adequate credit.

7% agricultural members complained of non-availability of credit at the time of their requirement. According to all others they got the finance as and when they wanted.

Professor V.B. Jugale and Research Officer, NABARD Chair Unit of Vaikunth Mehata National Institute of Co-operative Management made a case study of “High rate of Deposits of Primary Agricultural Co-operative Society (PACS) in Kerala.”

They wrote in this study that the co-operative structure in most of the Indian states is relatively weak except in Punjab and Kerala. Here “The PACS in Kerala have been successful in mobilizing their own resources and is unique example of hidden saving potentials in rural area.” According to them there is a very strong network of the credit co-operative at the grass root level in Kerala. From their study they concluded that the PACS in Kerala have turned a new leaf in the annals of the co-operative in India. They have shown as to how co-operative societies at the primary level in the rural areas of our country could function successfully and establish intimate support with the local population for raising deposit.
Dr D.T. Patil’s work on “Primary Agricultural Co-operative Credit Societies in Miraj Taluka” concentrated mainly on growth performance of Primary Agricultural Co-operative Credit Societies (PACS) in Miraj taluka of Songli district.11

His data base study was estimated by various ratios. Such ratios are (i) ratio of Net worth, (ii) Income expenditure ratio, (iii) Income Multiplier ratio, and (iv) Marginal efficiency of capital ratio.

From the above ratios he concluded that in general the financial position of the PACS in Miraj taluka is not so sound, though in some cases there is favourability in the financial position. According to him an increasing overdue is in fact a headache of the PACS. He suggested in his study to convert the present PACS into co-operative village Bank

Dr M. Ramon, Lecturer, ICM, Madurai and Sri T. Paranjothi’ Principal, NICM Chennai have jointly worked on “An Evaluation of Multipurpose Primary Agricultural Credit Co-operative in Arid Region of Tamil Nadu” 12 selected that in the initial stages PACBS were established with an intention of disbursing credit to small and marginal farmers for production purpose as an alternative credit organization to the unsurous money lenders. In course of time they have been transformed into multipurpose business entities involving in many business activities such as sale of controlled and non controlled commodities, sale of agricultural inputs and outputs, issuing of jewel loans besides disbursing short term and medium term loans to the farmers and artisans in the rural area. They also
added, "Not only the success of the co-operative credit organization depends on the effective credit delivery system, it also equally depends upon the linkages with the developmental programmes to be initiated by the government, identification of activities and proper consideration of backward and forward linkage of the projects to be implemented by the government. Unfortunately co-operative in this region are yet to be integrated with the main stream and they are still involved in the traditional sphere of activities."

They also advocated that "if there is any progress to be expected in the working of PACBS, it is in the area of managements capabilities which are at present are not well equipped to face challenges in new intense competitive environment. Increasing the caliber of PACBS management on various aspects of business operation especially deposit maximization, efficient utilization of deposits in diversified economic activities and recovery of loans which is at present weakest one in their business operation – has to be seriously addressed.

Dr A. Ramakrishnan, Vice-Principal, Regional Institute of Co-operative Management, Bangalore on his work "Review of Structural Reforms for Agricultural Co-operatives"\textsuperscript{13} has called for strengthening the grass root level credit structure (PACS) through effective implementation of Business Development Plans within the framework of a facilitative legislation so as to enable the PACS to function as multifunctional institutions.

He stated that the financial resource base is one of the major weaknesses of the co-operative structure. In future, the PACS should stand on their own by
mobilizing the deposits in the rural sector. For this the DCCBs and SCBs should provide guidance and infrastructural assistance to the PACS.

Even after implementation of Business Development Plans (BDPs) the business level of PACS has not increased to the desired extent. So, an all out effort by all the institutions concerned to increase the business level of PAACS is called for.

The Co-operative Societies Act of many of the states contains a lot of restrictive provisions, which impede the healthy growth of the co-operatives. Hence, the example of Andhra Pradesh Mutually aided Co-operative Societies Act, may be replicated by all the states which shall pave the way for the real democratic functioning of the co-operatives.

Mr Yogest Gupta, Lecturer in Economics, Regional Engineering College of Himachal Pradesh made a paper on “Performance of Agricultural Credit Co-operative Societies in Shimla District of Himachal Pradesh”. His main emphasis was on the parameters such as total loan advances, short term and medium term loan advances, cash and kind components of loan advances to different categories of farmers, recovery position and overdue of loans advanced by PACS in the district.
His study concludes as follows:

1. There has been around 12 times increase in the total loan advanced by PACS.

2. Short term and medium term loans provided by the PACS showed that main emphasis has been given to the short term cultivation on finance.

3. Medium and large farmers have taken lions share of total loan given to the members.

4. Share of loan recovery is maximum from medium category farmers and minimum in case of large size category farmers.
Reference

3.6


2. Ibid. p. 155


4. Ibid. p. 17.


