

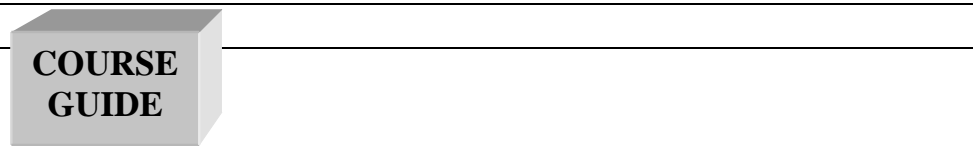


NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: COP 211

COURSE TITLE: Comparative Economics 1



**COP211
COOPERATIVE ECONOMICS I**

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Introduction

COP211- Cooperative Economics I is a semester course for students pursuing a first degree in Cooperative Management. This course will also be available to students who want to do a post-graduate course in Cooperative Management. It is assumed that these students do not have background knowledge in cooperative studies.

This course guide provides you information on the nature of the course, the materials you are going to use and how you are going to use the materials for meaningful benefits. It is expected that, at least 2 hours should be devoted to the study of every course unit. For each course unit, there are exercises. You are encouraged to attempt the exercises. They obviously serve as points of reflections, which are necessary for proper understanding of the facts contained in the course.

At the end of each unit, there are tutor-marked assignments, which you are expected to answer. They serve as revision and continuous assessment. Tutorial lectures will be provided, which is an opportunity for you to have a face-to-face contact with your facilitator. Any area you did not understand will be explained during the tutorial classes at your study centre.

Course Aim

The course aims at exposing learners to the economics of cooperative and how cooperatives are organised.

Course Objectives

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

- explain the nature of cooperative
- explain the cooperative terminologies and concepts
- define what a cooperative society is using the essentialist and nominalist approaches
- explain the promotional motives of cooperatives
- list the conditions under which a cooperative can perform
- describe the effects and influences of cooperative on their members and non-members
- explain and define the terms “groups”, “sub-groups” and “bandwagon effects” in a cooperative
- identify the various sources of capital in a cooperative
- distinguish between fixed capital and working capital

- identify possible investment opportunities open to cooperatives in Nigeria
- classify cooperatives
- explain similarities and differences between single-purpose and multi-purpose cooperatives.

Working through This Course

You are advised to read through this course guide to get familiarised with the structure of the course. This is to be done by reading the study units properly and attempting all self- assessment exercises, completing and submitting all tutor- marked assignments for the course and consulting recommended sources for further reading.

Each unit contains self assessment exercises and you are required to submit assignments for assessment purposes. There will be a final examination at the end of the course. Each unit should take you about two (2) hours to complete, giving you a total of about thirty (30) hours to complete the course. In order to successfully complete the course on time, you are advised to draw up a personal time schedule that will enhance the achievement of this goal.

Course Materials

1. Course Guide
2. Study Units
3. Textbooks
4. Assignment File
5. Tutorials.

Study Units

There are fifteen study units, divided into three modules.

Module 1

- | | |
|--------|---|
| Unit 1 | The Nature of Cooperative |
| Unit 2 | Cooperative Concepts |
| Unit 3 | Explanation of Cooperative Terminologies |
| Unit 4 | Definition of Cooperative and its explanation |
| Unit 5 | Promotional motives of Cooperative Business Enterprises |

Module 2

- Unit 1 The Need for Individuals with Similar Problems to Come together to Form a Cooperative
- Unit 2 Conditions under which a Cooperative can Perform Effectively
- Unit 3 Effects/Influences of Cooperative on Members and the General Public
- Unit 4 Explanation/Definition on the Terms “Groups”, “Sub-Groups” and “Bandwagon Effects” in a Cooperative and how to Minimise Existing Conflicts between Groups
- Unit 5 Sources of Capital in Cooperatives

Module 3

- Unit 1 Distinction between Fixed Capital and Working Capital
- Unit 2 Possible Investment Opportunities Open to Cooperatives in Nigeria
- Unit 3 Classification of Cooperative
- Unit 4 Types of Cooperative Societies, their Functions and Assessment of the Correctness of Available Classification
- Unit 5 Similarities/Differences between Single-Purpose and Multipurpose Cooperatives

All the units are important for proper understanding of Cooperative Economics I. For each study unit, on which you are to spend at least 2 hours, there are specific objectives. At the end of each unit, measure what you have learnt against the objectives. If there is any deviation, go back to the contents of that unit.

Textbooks and References

Certain books have been recommended in the course. You should read them, where you are so directed, before attempting the exercises.

Assessment

This will be in two forms, namely:

1. The continuous assessment, which will be based on 30%
2. The final semester examination after you have completed the materials which will also be based on 70%

Tutor-Marked Assignments

There are two of them in each unit of this course making 30 in all. You are to do a total of 5 in the entire course as grouped under assignment file. You are to submit the five in which each of them carries 6%. As soon as you complete your assignment, send it immediately to the tutor.

Final Examination Grading

There will be a three-hour examination covering the whole course. You are expected to answer five questions on the whole.

Course Overview and Presentation Schedule

| Unit | Title of Work | Weekly Activity | Assessment end of unit |
|-----------------|---|-----------------|----------------------------|
| | Course Guide | 1 | |
| Module 1 | | | |
| 1 | The Nature of Cooperatives | | |
| 2 | Cooperative Concepts | | |
| 3 | Explanation of Cooperative Terminologies | | |
| 4 | Definition of Cooperative and its Explanation | | 1 st Assignment |
| 5 | Promotional Motives of Cooperative Business Enterprise | | |
| Module 2 | | | |
| 1 | The Need for Individuals with Similar Problems to Come Together to Form a Cooperative | | |
| 2 | Conditions under which a Cooperative can Perform Effectively | | 2 nd Assignment |
| 3 | Effects/Influence of Cooperative on their Members and the General Public | | |
| 4 | Explanations/Definition on the Terms, "Groups", "Sub-groups" and "Bandwagon Effects" in a Cooperative and how to Minimise Existing Conflicts between Groups | | 3 rd Assignment |
| 5 | Sources of Capital in Cooperative | | |
| Module 3 | | | |
| 1 | Distinction between Fixed Capital and Working Capital | | |
| 2 | Possible Investment Opportunities Open to Cooperatives in Nigeria | | 4 th Assignment |

| | | | |
|---|---|--|----------------------------|
| 3 | Classification of Cooperatives | | |
| 4 | Types of Cooperative Societies, their Functions and Correctness of Available Classification | | |
| 5 | Similarities/Differences between Single-purpose and Multi-purpose Cooperatives | | 5 th Assignment |
| | Revision | | |
| | Total | | |

How to Get the Most from This Course

In distance learning, the study units replace the lecturer. There is the advantage of reading and working through the course material at the pace that suits the learner best. You are advised to think of it as reading the lecture as against listening to the lecturer. The study units provide exercises for you to do at appropriate periods instead of receiving exercises in the class.

Each unit has common features which are designed, purposely, to facilitate your reading. The first feature is an introduction to the unit and it reflects the manner in which each unit is integrated with other units and the entire course. The second feature is a set of learning objectives. These objectives should guide your study. After completing the unit, you should go back and check whether you have achieved the objectives or not. Next is the main content. This deals with the main text of the unit. The next feature is self-assessment exercises which are study questions that are found throughout each unit. The exercises are designed basically to help you recall what you have studied and to assess your learning by yourself. You should do each self assessment exercise as you come to each in the study unit. The next features are conclusion and summary at the end of each unit. These help you to recall all the main topics discussed in the main content of each unit. There are also tutor-marked assignments at the end of appropriate units. Working on these questions will help you to achieve the objectives of the unit and to prepare for the assignments which you will submit and the final examination.

It should take you between three to four hours (3-4 hrs) to complete a study unit, including the exercises and assignments. Upon completion of the first unit, you are advised to note the length of time it took you, and then use this information to draw up a timetable to guide your study of the remaining units. The margins on either sides of each page are meant for you to make notes on main ideas or key points for your usage when revising the course. These features are for your usage to significantly increase your chances of passing the course.

Facilitators/Tutors and Tutorials

There are many ways of learning as a learner at a distance. You learn when you interact with the content in your course material just as a student interacts with the teacher in a conventional institution. You also learn when you are guided through the course. Though you are not taught the course, your course material is however your teacher; and as such, you will not be able to get answers to questions which may arise from your study of the material. For this reason, apart from the course material which you have received, the delivery of this course is aided by tutorial, facilitation and counselling support services. These services are not compulsory but you are encouraged to, maximally, take advantage of them.

The time set aside for this course form part of your learning process, as you have an opportunity to receive face-to-face interaction with your informal facilitator and to receive answers to questions or classifications which you may have. Also, you may contact your tutorial facilitator by telephone or e-mail.

As an open and distant learner, you are expected to prepare ahead of time by studying relevant study units, write your questions so as to gain maximum benefit from tutorial sessions. Information about the location and time schedule for facilitation will be available at your study centre.

Note that tutorial sessions are flexible arrangements between you and your tutorial facilitator. You will need to contact your study centre to arrange the time scheduled for the sessions. You will also need to obtain your tutorial facilitator's phone number and e-mail address.

Tutorial sessions are optional. However, participating in them provides tremendous benefits because they provide a forum for interaction and group discussions which will maximise the isolation you may experience as an open and distance learner. Your tutorial facilitator guides you by doing the following things.

- i. Providing answers to your questions during tutorial sessions on phone or by e-mail
- ii. Coordinating group discussions
- iii. Providing feedback on your assignments
- iv. Posing questions to confirm learning outcomes
- v. Coordinating, marking and recording your assignments/examination score(s)
- vi. Monitoring your progress.

English language is the language of instruction for this course. The course material is available both in print and on CD. It is also on the National Open University of Nigeria website. However, on your part, you are to prepare ahead of time by studying and writing your questions so as to maximally benefit from the facilitation.

Information about the location and time of facilitation will be available at your study centre. This is a flexible arrangement between you and your tutorial facilitator. You should contact your tutorial facilitator whenever:

- i. you do not understand any part of the study unit
- ii. you have difficulty with the self assessment exercises
- iii. you have a question or a problem with an assignment, or your tutorial facilitator's comments on an assignment or with the grading of an assignment.

Summary

This course gives you the basic knowledge that will put you steadily on the way for further course, leading to B.Sc. Cooperatives Management. At the end of this course, you would have known what cooperative is and you can then separate it from other forms of business enterprises. You will also know how to manage a cooperative including the different sources of funds and how you are to spend the funds if you are a manager.

Course Code COP211
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MODULE 1 UNDERSTANDING THE NATURE OF COOPERATIVES

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| Unit 4 | Definition of Cooperative |
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UNIT 1 THE NATURE OF COOPERATIVES

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| 1.0 | Introduction |
| 2.0 | Objectives |
| 3.0 | Main content |
| 3.1 | Origin and Acts of Mutual Assistance |
| 3.2 | Extension of Mutual/Traditional Assistance to Formal Cooperatives |
| 3.3 | Cooperative as Non-Profit Making Organisation |
| 3.4 | Characteristics of Cooperatives |
| 3.4.1 | What Cooperative is not? |
| 3.5 | Cooperative Federalism versus Cooperative Individualism |
| 4.0 | Conclusion |
| 5.0 | Summary |
| 6.0 | Tutor-Marked assignment |
| 7.0 | References/Further Reading |

1.0 INTRODUCTION

This is the first unit of this course. Cooperative organisations are gaining ground all over the world. It is an alternative system of production which lays emphasis on profit maximisation. This unit discusses the nature of cooperatives with emphasis on the origin and other relevant areas.

2.0 OBJECTIVES

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

- describe the nature of cooperative
- trace the origin and acts of mutual assistance
- explain extension of mutual assistance to formal cooperative
- describe cooperative as a non-profit making organisation
- explain the characteristics of cooperative.

3.0 MAIN CONTENT

3.1 Origin and Acts of Mutual Assistance

Cooperative Economics is about people co-operating with each other to provide for the basics of life. Cooperative, here, means that people work together to develop self-reliant, locally-based and community controlled economics within a given bio-region.

Consequently, cooperative activities take place when individuals pool their resources together (which are often meager) in an effort to obtain what is needed by all, which, otherwise, cannot be obtained with the use of an individual's resources, talents, time, information or effort. This practice has existed since the origin of humanity; cooperative is, therefore, a customary and an instinctive solidarity. The first cooperative act of man can be traced to when the first human family started gathering food, even before the agricultural age.

We have examples of mutual aid and assistance in our traditional societies. You have probably noticed some instances where helps were rendered to others on such occasions like celebration of births, marriage ceremonies, funeral ceremonies, and so on. There existed customary arrangements within these traditional societies for securing assistance from neighbours during these events.

The more advanced forms of traditional cooperative are demonstrated in savings and lending, joint action, joint possession of land and its resources. Our people did not leave life's risks and emergencies to chances. They developed various patterns of mutual assistance, reduced them to custom, and handed them down as tradition, norm and as a legacy from the past through formal and informal education.

These practices were enforced with the authority of the elders. Those who deviated from these traditional mutual activities were ostracised from the community. These traditions of mutual assistance are common

in various communities in Nigeria. These societies are usually called self-help organisations. We shall come across them in subsequent units.

SELF-ASSESSMENT EXERCISE 1

Look around you and mention, at least, 5 incidents where a form of traditional assistance was rendered to people.

3.2 Extension of Mutual/Traditional Assistance to Formal Cooperatives

Modern cooperatives have their roots in traditional forms of cooperative. The cooperative actions are based on voluntary agreements by the individual actions. This voluntarism is the main tenet of modern acts of co-operative. In general, cooperative can be in the form of two or more persons working together to achieve one or more goals, which can either be permanent or ad-hoc, or it can even be a one-time act. In this regard, the rules as well as the modes of such actions of working together will be different from one instance to another.

Furthermore, the nature of cooperative, from a limited perspective, is also often used to mean the activities of a specific form of organisation, that is, the cooperative. The word cooperative can also be used as an adjective. From the point of view of looking at co-operation as specific formal organisation, a study of cooperative is a study of the institution and its activities.

3.3 Cooperative as Non-Profit Making Organisation

You should note that the underlying force behind cooperative is not for making profit. That is, the primary objective for the formation of a cooperative society is not for profits unlike the private enterprises. We all know that entrepreneurs establish businesses for the sole purpose of making profit. On the other hand, cooperatives are business organisations with the motive of obtaining goods and services required by members through joint effort. Consequently, cooperative members combine in themselves the functions of owners and users.

You will notice that in cooperative activities, the buyer becomes the seller, the borrower becomes the lender, and the tenant becomes the landlord and so on. The owner-user nature of cooperative will be explained further in the course of this study. Also, because the patron is the owner, you will agree with me that he must be the controller of the cooperative. This is necessary so as to ensure the quality of service that is needed and to avoid all forms of exploitation.

That is why there is broad base control or democratic control by members (Patrons).

Again, surpluses are shared by members in proportion to the volume of business each member does with the cooperative society. Surpluses are never shared in proportion to shareholding. This is unlike the private organisations where the net profit or net result goes to the investor(s) in proportion to the amount invested into the business.

3.4 Characteristics of Cooperative

In the preceding sections, 3.1-3, we tried to look at the nature of cooperative. In the process of doing that, we mentioned some characteristics of formal co-operation, such as the non-profit nature of cooperative. We are going to look further by highlighting what cooperatives are not, so as to bring out the essential feature of cooperatives.

SELF-ASSESSMENT EXERCISE 2

From the foregoing discussion, discuss the nature of co-operation.

3.4.1 What Cooperative is not?

The simplest way to highlight the features of cooperative is to compare cooperatives with other organisations that look like cooperatives, but which, in reality, are not cooperatives. Let us look at some examples.

- a) Cooperatives are not trade unions.
- b) Cooperatives are not political parties.
- c) Cooperatives are not parastatals.
- d) Cooperatives are not Lion Clubs or Johnson's Brigade or Red

Cross or Rotary club- among others, because these are humanitarian or philanthropic organisations.

- e) Cooperatives are not private companies or public limited companies that are quoted on the Nigerian Stock Exchange (NSE), because these are profit-making organisations.

We now see clearly that the above mentioned organisations are not cooperatives because they do not seem to possess the unique characteristics of cooperatives. A cooperative is an association of people for mutual aid; it is run like a business entity with defined business policies, financed by members, in accordance with established rules and

regulations. We shall examine the definition of cooperative much later. The next section treats cooperative federalism

3.5 Cooperative Federalism versus Cooperative Individualism

A major historical debate in cooperative economics has been between cooperative federalism and cooperative individualism. For instance, in a typical village or a community, the residents would be both the producers and consumers of its products. However, for a cooperative, the producers and consumers of its products become two different groups of people, and thus, there are two different sets of people who can be defined as its “users”. As a result, we can define two different modes of cooperative organisation, namely, consumers’ and producers’ cooperatives.

In the case of consumers’ cooperative, the consumers of a cooperative’s goods and services are defined as users (for example, food cooperatives credit unions, etc.); while producer cooperative is one in which the producers of a cooperative’s goods and services are defined as its users (for example, agricultural producer cooperatives, etc.). This in turn led to a debate between those who support consumers’ cooperative (known as cooperative federalists) and those who favour producers’ cooperatives (pejoratively labeled- individualist cooperatives, by the federalists)

SELF-ASSESSMENT EXERCISE 3

Mention other organisations you are familiar with, which look like cooperatives, but are not.

4.0 CONCLUSION

In this unit, you have learnt that the origin of cooperative dates back to the early days of human existence. By living together, cooperation as a form of individual and societal behaviour is intrinsic to humanity. Thus, acts of mutual aid and assistance were, instinctively, rendered.

You have equally been exposed to the nature and characteristics of cooperative, which is an association of individuals of modest means, who have decided together to pool their resources in order to carry out economic activities for mutual benefits. It was pointed out that the management of such economic ventures is undertaken by members and that profit is not the motive or primary objectives of cooperative. You have also been made to know that even though some organisations may resemble cooperatives, they are not- because they do not possess the characteristic of cooperatives.

5.0 SUMMARY

In this unit, you have been exposed to the nature and characteristics of cooperatives. All that you have learnt in this unit is very critical to understanding other issues that we are going to be discussing, subsequently.

6.0 TUTOR-MARKED ASSIGNMENT

1. List and explain the elements that bring out the essence of cooperative.
2. Juxtapose cooperative federalism with cooperative individualism.

7.0 REFERENCES/FURTHER READING

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

Movement for Beloved Community. (2006). Cooperative Economics. Retrieved on July 18, 2009 from <http://home.earthlink.net/crflyer/cooperativesub.html>.

Onucha, E. (1986). *Principles of Cooperative Enterprises*. Enugu: Express Publishing Company Limited.

UNIT 2 COOPERATIVE CONCEPTS

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- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Statement of Cooperative Identity
 - 3.2 Cooperative as a Socio-Economic Entity
 - 3.2.1 Social Cooperatives
 - 3.3 Components of the Cooperative Complex/Combine
 - 3.4 Cooperatives in Transition
 - 3.5 Cooperative Principles
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor–Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

In the last unit, you are acquainted with the nature and characteristics of cooperatives. The present unit is going to be an extension of the first one. This is because we are still going to closely look at those features of cooperatives such as cooperative concepts and cooperative as a socio-economic entity.

2.0 OBJECTIVES

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

- identify types of cooperative concepts and ideas
- explain cooperative as a socio-economic entity
- list components of cooperative complex
- explain cooperative in transition.

3.0 MAIN CONTENT

Ever since people have come together to do business as a cooperative; they have been driven by political and ethical values. It is for this reason that cooperatives are often described as value-oriented businesses.

Cooperative enterprise has been described as people-oriented; it is also seen as vital for sustainable development. Underlying these ideas are some basic philosophical concepts:

- fundamental respect for human beings and a belief in their capacity to improve themselves through mutual self-help.
- that democratic procedures applied to economic activities are feasible desirable, and efficient.
- that a democratically controlled business contributes to the common good.

From the foregoing, we can see clearly that, the concepts of cooperatives encompass the following:

- a duly registered association of persons.
- a common bond of interest.
- members coming together, voluntarily, to achieve a lawful common social and economic end.
- a fair share of risks and benefit, in accordance with accepted cooperative principle.

3.1 Statement of Cooperative Identity

The International Cooperative Alliance (ICA), which is a worldwide cooperative movement, is the custodian of the statement on cooperative identity. This statement provides a definition of a cooperative; it also describes the values that drive cooperative and the principles guiding their organisation, structure and culture – how they put their values into practice.

The current statement of cooperative identity was adopted by the International Cooperative Alliance in 1995. The statement was the product of a lengthy process of consultation with thousands of active cooperative organisations all over the world. The result of this process was a modern, contemporary meaning of what cooperative is. The statement describes a cooperative as: an autonomous association of persons united voluntarily to meet their common economic, social, cultural needs and aspirations, through a jointly-owned and democratically – controlled *enterprise*.

Cooperatives are based on the values of self-help, high sense of responsibility, democracy, equality and solidarity. In the tradition of their founders, cooperative members believe in honesty, sincerity, social responsibility and care for others. The statement sets out seven cooperative principles. These are the guidelines by which cooperatives put their values into practice. These principles will be examined in due course.

SELF-ASSESSMENT EXERCISE 1

List the key variables of cooperative concepts

3.2 Cooperative as a Socio–Economic Entity

Although the term may be used, loosely, to describe a way of working, cooperative, properly so-called, is a socio–economic entity owned and democratically controlled equally by its members. A defining point of a cooperative is that, the members have a close association with the enterprise as producers and consumers of its products or services, or as its employees.

Cooperatives often share their earnings- as dividends, with members; these are divided among members, based on the level of their participation (patronage) in the enterprise, instead of, according to the value of their capital shareholdings (as is done by a joint stock company).

3. 2.1 Social Cooperatives

There are “type *A*” and “type *B*” social cooperatives. A type *A* social cooperative brings together producers and beneficiaries of a social service as members. On the other hand, type *B* social cooperative brings together permanent workers and previously unemployed people, who wish to integrate into the labour market.

Social cooperatives have certain features, let us take a look at these one after the other.

- No more than 80 percent of profits (surplus) may be distributed. Interest is limited to the bond/stock rate, and dissolution is altruistic (assets may not be distributed).
- The cooperative is a legal entity, with limited liability.
- The objective is the general benefit of the community (bio-region) and the social integration of citizens.
- Those of type *B* integrate disadvantaged people into the labour market. The categories of the disadvantaged they target may include those with physical and mental disability, those suffering from drug abuse and alcohol addiction, developmental disorders and other social ills. They do not include other factors like race, sexual orientation or abuse as a disadvantage.
- Type *A* cooperatives provide health, social or educational services.

Various categories of stakeholders may become members, including paid employees, beneficiaries, volunteers (up to 50 percent of members), financial investors and public institutions. Type *B* cooperatives at least, 30 percent of the members must be from disadvantaged target groups.

3.3 Components of Cooperative Complex/Combine

Historically, cooperatives have not developed in isolation, but rather in connection with a wide range of social movements with a correspondingly wide range of purposes. Three components which are common in all social and cooperative institutions are identified as sociology, praxis (action) and organisation. The triad formed by these components and the interaction between them provide a useful framework to analyse cooperative decision-making and adjustment.

The purpose of cooperative and community economic development coincide. Cooperatives have played a strong role in community economic development, viability and sustainability.

3.4 Cooperative in Transition

As democratic, member-based organisations, cooperatives are experiencing a range of strains, stresses and tensions in their attempts to ensure their continued viability. This is, primarily, due to their attempts to provide economic benefits to members while also meeting their social goals. Consequently, co-operatives appear to be undergoing a new wave of adjustments and are reflecting specific features, which bring into question whether they will remain cooperatives.

Analysis of how cooperatives are responding to current challenges will provide lessons for other voluntary democratic member-based organisations. The basic question we may now ask is- how can cooperatives respond to current challenges while meeting members' social and economic needs? The impact of the adjustments on organisational structure, participation of members, democratic values and contributions to community economic development are enormous.

The study of cooperatives, following the new trends, must incorporate economics, history, sociology, organisational behaviour and management, political science and community economic development. This is because cooperatives are multi-dimensional organisations. They have both economic and social goals, and routinely trade off attainment of one to achieve the other. They are business enterprises, and so, they must be managed. They are democratic organisations which mirror the transitions and adjustments occurring in society and in the economy. Approaching the study of cooperatives through the lens of only one

discipline allows understanding of only one dimension of these organisations.

3.5 Cooperative principles

Cooperative principles are guidelines for putting the values of cooperatives into practice. Now, let us take a look at some of these.

(a) Voluntary and open membership

Cooperatives are voluntary organisations, open to all persons able to use their services and who are willing to accept the responsibilities of membership without gender, social, racial, political or religious discrimination.

(b) Democratic nature of control mechanism

Cooperatives are democratic organisations controlled by members who actively participate in setting policies and making decisions. Men and women serving as elected representatives are accorded membership. In primary cooperatives, members have equal voting rights (one member, one vote); cooperatives at other levels are also organised in a democratic manner.

(c) Economic participation

Members contribute equitably, and democratically control the capital of their cooperative. At least, part of their capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surplus for developing their cooperative, possibly, by setting up reserves, which are taken advantage of, in proportion to their transactions with the cooperative. Also, surplus can be deployed to support other activities approved by members.

(d) Autonomy and independence

Cooperatives provide education and training for their members elected representatives, managers, and employee so they can contribute effectively to the development of the association. They inform the general public, particularly young people and opinion leaders – about the benefits of co-operation.

(e) Co-operation among cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

(f) Concern for community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

SELF-ASSESSMENT EXERCISE 2

List the principles of cooperatives.

4.0 CONCLUSION

In this unit, you have learnt the concepts of cooperative, cooperative as a socio-economic entity as well as components of the cooperative complex/combine. You have also been taken through what cooperatives in transition and cooperative principles are all about. This will boost your understanding of other concepts that will be discussed subsequently.

5.0 SUMMARY

In this unit, you have been exposed to the nature of cooperatives generally; you have been taken through basic concepts like cooperative identity, cooperative as a social-economic entity, and cooperative in transition and so on.

6.0 TUTOR –MARKED ASSIGNMENT

1. Cooperatives can be regarded as both social and economic institutions. Explain.
2. List and explain the components of cooperative.

7.0 REFERENCES/FURTHER READING

Cooperative UK (2005). Concepts and Ideas. Retrieved on July 22, 2009 from
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UNIT 3 EXPLANATION OF COOPERATIVE TERMINOLOGIES

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Cooperative Spirit
 - 3.1.1 Level of Intensity of Cooperative Spirit
 - 3.2 Cooperative Frequency
 - 3.3 Cooperative Effect
 - 3.3.1 Determining Cooperative Effect
 - 3.4 Cooperative Movement
 - 3.5 Cooperative Nexus
 - 3.6 Why Cooperative is a Non-Governmental Organisation (NGO)
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

In the last unit, you were taken through cooperative concepts and principles. The essence was to give you an insight into the philosophical and ethical basis of cooperative movement.

In this unit, however, you will be taught various cooperative terminologies such as cooperative spirit, cooperative frequency, cooperative effect, cooperative movement, and cooperative nexus as well as advance reasons why cooperative is a Non-Governmental Organisation (NGO).

2.0 OBJECTIVES

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

- explain what a cooperative spirit is
- explain what cooperative frequency is
- describe cooperative effects
- explain what cooperative movement is
- determine what cooperative nexus is
- list reasons why cooperative is a Non-Governmental Organisation (NGO).

3.0 MAIN CONTENT

3.1 Co-Operative Spirit

Cooperative spirit emphasises that each member should place the cooperative society and its interests over and above that of the individuals that make up the cooperative. In other words, the spirit emphasises the supremacy of cooperatives over everything else, including the personal interest of the members.

However, before this desirable practice can take place, there must be an inner conviction that the cooperative is able to cater for the needs of members at any particular point in time, regardless of prevailing circumstances. The felt needs constitute those unfulfilled desires that tend to drive people into the brink of despair and hopelessness such as the need for food, water, shelter, security, protection, self-esteem, love and self-actualisation. These needs are very important in the life of a man, and they must be meaningfully satisfied through the combined efforts and solidarity of the cooperative society.

Consequently, members of cooperatives should be ready to submit to the decisions of the majority, to work together with other members of the group. They should also support the cooperative at all times rather than deserting it at the slightest opportunity, especially in times of temporary difficulties. It is also imperative for the hired manager of the cooperative and his subordinate staff to possess cooperative spirit by having a sense of dedication to the society.

3.1.1 Level of Intensity of Cooperative Spirit

As cooperative spirit is a product of inner conviction, its level of intensity differs considerably. In other words, there is a correlation between the level of intensity of cooperative spirit and the motivating factor for becoming a member. If membership has been forced on an individual, the intensity of his/her cooperative spirit will not be as strong as when membership is based on his free will. Cooperative spirit will also differ, depending on the size of the cooperative. It tends to be higher in a small cooperative than in a large group such as a cooperative apex organisation.

3.2 Cooperative Frequency

The idea of replacing economic competition by the mutual cooperative of producers and/or consumers, as well as how often this scenario replays itself is at the heart of cooperative frequency. In principle, all economic activities that have to do with the processes of production,

distribution, and exchange may be included in a scheme for cooperative. It is one of the key principles of economic co-operation that net earnings are redistributed directly (usually, on annual basis) to the members of the association and do not serve as profit for a separate group of owners or investors. In practice, cooperatives of many kinds have emerged and flourished across the world, particularly in the areas of farming, industry, and the service sector; these can be in the form of consumer societies and housing association.

Cooperatives have been more common and more successful in capitalist societies than under socialist system of economic planning. Yet, for many democratic socialists and anarchists, the cooperative principle-linked to the ideal of control as being vested in workers, remains an important starting point for building a vision of an alternative society to both capitalism and state socialism.

3.3 Cooperative Effect

Cooperative effect, in general term, is the degree of extra satisfaction which a member derives as a result of being a member of a cooperative, compared to when he/she does not to any cooperative association. It, therefore, draws a comparison between the level of satisfaction derived before joining the cooperative and the level of satisfaction derived after becoming a member.

3.3.1 Determining Cooperative Effects

Determining cooperative effect demands a consideration of, at least, two business periods, in respect of the level of satisfaction enjoyed by a member. The first period is when the individual is on his/her own, and carries out all the functions required by his business enterprise without recourse to any other party. It is assumed that he derives a measure of satisfaction.

However, when eventually decides to join and participate in the cooperative and in the process, he/she derives another level of satisfaction and his/her new level of satisfaction represents the cooperative effect.

More of cooperative effects, especially as they affect members and non-members, shall be treated in subsequent section(s). Various types of cooperative effects- social, economic, educational, etc., will be treated also in subsequent sections.

SELF-ASSESSMENT EXERCISE 1

Explain cooperative effects

3.4 Cooperative Movement

The Columbian Encyclopaedia states that cooperative movements can be described as follows.

“Series of organised activities, that began in the 19th century in Great Britain and the world, whereby people organise themselves around a common goal, usually economic. The term usually refers, more specifically, to the formation of non-profit economic enterprises for the benefit of those using their services.”

Considering world cooperative movement, it is worthy of note that the important European countries in which consumer co-operation received early popular support were France, Germany, Belgium, Australia, Italy, Denmark, Finland, Norway and Sweden. The Swedish movement, which became remarkably successful in both the distributive and manufacturing fields, is a significant force in the Swedish economy which is often called “the middle way”, to indicate its position between individual enterprise and socialism.

Following the establishment of Fascist dictatorships in Italy and Germany, the cooperative movements of these countries were systematically destroyed. However, considerable progress has been made in rehabilitating cooperative since the demise of these Fascist dictatorships. Consequently, cooperative has become an important part of the economic life of countries in Eastern Europe, Africa, Asia, Australia and the Americas.

The membership in the International Cooperative Alliance (ICA), which was formed in 1895, gives some ideas of the size of cooperative movement today. In the mid-1980s the ICA recorded a membership of about 355 million individuals. Affiliated organisations existed in some 70 countries, comprising societies of various types, including consumer, agricultural, fishery, productive and artisan, building and housing, and credit cooperatives. The greatest concentration of membership was in Europe, next in rank was Asia. Through the alliance, mutual trading and financial relations are facilitated between cooperative organisations in various countries engaged in wholesaling, marketing, production, banking and insurance.

SELF-ASSESSMENT EXERCISE 2

Give a brief outline of the activities of the International Cooperative Alliance (ICA)

3.5 Cooperative Nexus

Cooperative nexus is the relationship between a cooperative organisation, as a business entity and member's private business enterprise or household economy. The cooperative is, thus, established to promote the interest of its members. Members depend on the Cooperative for performance. The more, dependent a member is, and the more crucial the service of the cooperatives for his continued existence, the higher the chance that he will demonstrate greater concern, enthusiasm and a higher level of cooperative spirit.

SELF-ASSESSMENT EXERCISE 3

Select any cooperative society within your area; seek for permission to attend any of their meetings. Observe whether there is a cooperative spirit or not; give reasons for the outcome of your observation.

3.5.1 Why a Cooperative Society is a Non-Governmental Organisation (NGO)

Before we advance reasons why a cooperative is a Non-Governmental Organisation (NGO), we should situate cooperative with what *NGO* does by outlining their functions as follows:

- Membership consists of rural organisations committed to poverty alleviation through the institutional and enterprise development of the low-income rural Nigerians with particular emphasis on farmers.
- Supporting rural dwellers by improving socio-economic conditions and promoting their general welfare.
- To promote popular participation in decision making.
- To develop skills, improve knowledge; promote culture and consultative process in decision making.
- To give the people a sound knowledge of the local technology, tradition and culture which are for economic development.

Thus, it is obvious that a cooperative is a non-governmental organisation because it involves a pooling of private resources towards achieving a socio-economic and political end.

4.0 CONCLUSION

In this unit, you have learnt about the cordial relationship that should exist between cooperative organisations and members, for the attainment of the desired end. There is also cooperative nexus, a kind of bond that ties the cooperative to the member; and as long as the cooperative spirit and the bond are strong in the hearts and mind of the members the cooperative will continue to wax stronger.

For the continuous survival of a cooperative, there should be the cooperative spirit, which places the cooperative organisation over and above personal interests of the members of the cooperative society. This is very important.

5.0 SUMMARY

In this unit, you have been exposed to the concepts such as cooperative spirit, cooperative frequency, cooperative effect, cooperative movement and cooperative nexus. You would have noticed the similarities between cooperatives and *NGOs*; these represent the foundations on which the survival and continuity of cooperatives rest.

6.0 TUTOR-MARKED ASSIGNMENT

1. Critically analyse the cooperative nexus that exists in a cooperative organisation.
2. Trace the history of cooperative movement.

7.0 REFERENCES/FURTHER READING

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

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UNIT 4 APPROACHES TO DEFINING COOPERATIVE

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The Essentialist Approach to Defining a Cooperative
 - 3.2 The Nominalist Approach to Defining a Cooperative
 - 3.3 Examples of Definitions from the Two Approaches
 - 3.4 Explanation of the Nominalist Definition
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

Our focus in this unit is to examine various approaches to defining a cooperative, having already looked at the nature of cooperative and various cooperative terminologies in units 1 and 2. We have also seen the relationship between self-help organisation and cooperatives and the reasons why cooperative- as a socio-economic entity- is considered a Non-Governmental Organisation (NGO).

In this unit, you will learn the following two major approaches to defining a cooperative.

- (a) The Essentialist approach
- (b) The Nominalist approach

2.0 OBJECTIVES

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

- explain what a cooperative is, using the essentialist and nominalist approach
- define the term “cooperative” in your own word.

3.0 MAIN CONTENT

3.1 The Essentialist Approach to Defining a Cooperative

The essentialist approach attempts to define cooperative in terms of values, ideologies and overall economic and social goals. To attain any

accomplishment, these values, ideologies as well as economic and social goals must be pursued with a sense of mission.

However, since nations and people ascribe different meanings to the terms, values and ideologies, the universal acceptability of these terms becomes difficult. Hence, the essentialist approach has its limitations. For instance, values, ideology and goal differ between different economic systems. We all know that Nigeria practises a mixed economy in which different values and different long term goals may be found to be more emphasised in the different sectors of the economy.

The problems became apparent when it is realised that cooperatives are found in all economic systems, whether it is a capitalist system or socialist system or even a welfares system. People in these different economic systems organise themselves or are organised to form cooperatives. Consequently, cooperatives are present in all the sectors and businesses existing in every economic system all over the world.

From the foregoing analysis, it is obvious that no essentialist definition of cooperatives can incorporate all the diverse values, goals and ideologies- extant in all the economic systems, in one definition. This is because what is essential to one system may be essential or not essential in another system. It is a case of one man's meat is another man's poison. The essentialist approach can not present a suitable avenue for analysis, findings and recommendation that have universal application.

3.2 Nominalist Approach to Cooperative

Looking at the Nominalist approach to the definition of cooperative, it can be observed that the approach attempts to select structural elements of organisation present in all institutions which claim to be cooperatives in any economic system and sector. This is the reason it is readily accepted. The structural elements, which are readily emphasised, are listed below.

- (i) Individuals or persons who operate their private businesses or who operate their households are unified by a common goal.
- (ii) Joint action by a group, which attempts to attain certain predetermined goal through economic empowerment of the group, by mutual help.
- (iii) A jointly owned long term/permanent business enterprise as a channel through which goods and services are produced.
- (iv) A special promotional relationship between members' private business and the cooperatives enterprise, which are saddled with the responsibility of promoting members' welfare by making its goods and services directly available to the members (as

customers or in such case of producers' cooperative, as employees).

3.3 Examples of Definitions from the Two Approaches

An example of the Essentialist approach to the definition of a cooperative states that- *it is an association of socially weak persons trying to achieve certain social aims, within the framework of an enterprise open to all, and based on the rules of solidarity and democracy. It instills ideas of mutual help and social responsibility, as part of a new, ideal society.* In analysing the above definition, certain problems become apparent, let us look at these one after the other.

- a) How does one define “socially weak persons” in a socialist economy, a capitalist economy or mixed economy? Obviously, there is no common basis.
- b) In what ways are we to define what is meant by an enterprise, the system of rules of solidarity and democracy in all economic systems, sectors and institutions?
- c) It is difficult to establish a common parameter for social responsibility to the government, community, shareholder, customers etc., in every economy.

Having given the example of essentialist definition above, now let us look at an example of a Nominalist definition below; this states that *a cooperative is an association of persons, usually of limited means, who have voluntarily joined together to achieve economic end, through the formation of a democratically controlled business organisation, making equitable contribution to the capital required and accepting a fair share of the risks and benefits of the undertakings.*

SELF-ASSESSMENT EXERCISE 1

1. What are the two approaches to cooperative definition?
2. Enumerate the essential points in the two approaches.

3.4 Explanation of the Nominalist Definition

We are going to analyse the Nominalist approach to cooperative definition in this section; in doing this, we are going to consider the variables listed below.

(a) Association of people

It is apparent, from this definition, that a cooperative society is an association of persons who are ready to work together; it is made up of

people who understand themselves, who are ready to solve their problems jointly and who are socially fit to associate with one another. This is not to say that a cooperative society should be an association of armed robbers, thieves, and fraudsters, among other socially deviant segments of our populace.

(b) Limited means

Empirical studies show that those persons that join together to form cooperatives are usually of limited means, but not paupers. They must be willing to pool their resources together.

(c) Voluntary union

People are free to join or not join a cooperative society. In other words, individuals are not forced to join a cooperative. The decision to team up with others to form the society rests with every individual. If people are made to join cooperatives through some inducements, in the form of money from government or any other institution, as soon as the inducements are no longer forthcoming, the members' interest will wane and this may lead to the collapse of the society.

(d) Towards a common economic end

We should note that the major aim of a cooperative is to achieve economic goals, which include making profit or surplus. In a cooperative society, profit is regarded as surplus. Other goals include the ability of members to make more money, buying goods cheaply, getting loans, with little interests, for the purpose of investment, among others.

(e) Practice of democracy

Cooperative enterprises are democratically controlled. This means that cooperative business is controlled by the unanimous decision of members. No matter the status of any member in the community or the amount of his/her money invested into the business, he/she is only expected to vote once on any issue that requires voting. This is in contrast with other business enterprises whereby the amount of shares a shareholder has determines his/her voting power. Consequently, in cooperatives, the axiom- "one man, one vote" is the norm.

(f) Business enterprises

A cooperative is a business entity and not a humanitarian organisation. Business concepts, techniques and principles are brought to bear on the management of cooperatives.

(g) Equitable contribution to the capital

Since a cooperative is a business venture, equitable contribution is expected by all members, including prospective members.

(h) Fair share of risk and benefit

In cooperatives, every member participates in the management of the cooperatives so that, at the end of the year, through efficient management, surplus can be made. If this is the case, each member will have a fair share of the surplus, depending on patronage and contribution.

In a cooperative, a member is both a co-owner of the cooperative and also a customer or end-user of the society's products and services. On the other hand, if a loss is declared at the end of the financial year, the entire members will also share the loss.

4.0 CONCLUSION

In this unit, you have learnt the two approaches to the definition of cooperatives, namely- the Essentialist approach and the Nominalist approach. You would have seen that because of some observed shortcomings of the Essentialist approach, the Nominalist approach is commonly accepted. This is because it provides good ground for the analysis of what a cooperative is.

5.0 SUMMARY

In this unit, you have been exposed to the various approaches to defining a cooperative. You have also been taken through various variables which are peculiar to the Nominalist school of thought.

6.0 TUTOR-MARKED ASSIGNMENT

1. The Nominalist approach on the definition of cooperative is preferred to the Essentialist approach.
2. Discuss Cooperative enterprise is the soul of cooperative economics. Discuss.

7.0 REFERENCES/FURTHER READING

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

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UNIT 5 PROMOTIONAL MOTIVES OF A COOPERATIVE BUSINESS ENTERPRISE

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Problems Faced by Individuals in their Economic Units
 - 3.1.1 Various Economic Conditions Prevalent in Societies
 - 3.2 Lifestyles of Prospective Members
 - 3.3 Impression of Prospective Members about the Performance of Existing Businesses
 - 3.4 Existing Geographical and Social Structures
 - 3.5 Availability of Promoters
 - 3.5.1 Types of Promoters
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

In this unit, you will be introduced to the problems which compel individuals to form cooperative societies in order to solve these problems. This unit is, organically, linked to the next unit-which explains the need for individuals with similar problems to come together to form a cooperative.

The environmental factors that should exist to facilitate the promotion or establishment of cooperatives are both economic and non-economic in nature. These factors impact, either positively or negatively, on the formation of a cooperative in a given area. All these are usually reflected in the report of the economic survey conducted by a cooperative officer. You will, definitely, learn more about this in the future when you will be dealing with cooperative field work administration.

2.0 OBJECTIVES

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

- explain the economic problems faced by individuals that may necessitate the establishment of co-operatives
- discuss the non-economic conditions for the formation of cooperatives.

3.0 MAIN CONTENT

3.1 Problems Faced by Individuals in Their Economic Units

Since the level of economic development varies from one place to the other, problems of individuals also vary in their various economic units. The problems faced by individuals in such areas as small-scale industries, household setting and agricultural setting, etc., inform the need for pooling resources together in order to solve these problems.

For instance, lack of capital among a group of farmers, and the need to enjoy from economies of scale may compel them to form a cooperative. Similarly, operators of small-scale industries may individually find it difficult to access fund to finance their operations, due to lack of collaterals; but when they form cooperatives, they will be able to access fund easily.

Within a household comprising father, mother and children, there are usually problems of how to meet the basic necessities of life such as feeding, shelter and clothing, and so on; tackling these problems will demand making series of economic decisions. By joining cooperatives, household problems can be taken care of with ease.

3.1.1 Various Economic Conditions Prevalent in Societies

As stated above, the levels of economic development vary from one community to the other. Levels of economic development take two extreme forms. Let us look at this below.

(a) Subsistence economy

In this instance, the output of business enterprises is mainly for domestic consumption. The business exists only to produce goods and services for the basic consumption of the family. Some may, afterwards, be sold in the subsistence economy. Here, to form a cooperative will be difficult. This is because all needs are met within the individual business unit, without linkage to the outside. There is little or no income that will be needed to successfully start a cooperative, for example, paying membership registration fees, savings in the cooperative, among others. However, an interim structure (something that looks like a cooperative) can be started, especially in the rural areas. There is no need to be in a hurry on the registration of the interim structure, this is because registration requirements are stringent.

(b) Market economy

This is the opposite of the subsistence economy. Here, income provides the basis for the formation of a cooperative. Also, the needs of members are met, not only internally, but also externally through exchange. The basis for establishing cooperative is firmly provided.

Let us take a look at other variables that are crucial to the formation of a cooperative society.

(1) The average level of income of prospective members in a given area

You may wish to recall our definition of a cooperative as mentioned earlier on. One of the characteristics of a cooperative is that, members are also owners and users of the goods and services of the cooperative society.

The implication is that, a member must contribute to the provision of inputs such as capital. Where the average level of income is so low that the initial capital cannot be raised, establishing a cooperative will be met with difficulties that can delay the take-off.

SELF-ASSESSMENT EXERCISE 1

1. Give two reasons why establishing a cooperative may be difficult for these classes of people.
 - (a) Soldiers
 - (b) Subsistence farmers
 - (c) Cattle rearers
2. What will be your advice if they have to form cooperatives?

(2) The average size of the prospective members' business enterprise in a given area

Where there are large business organisations in an area, these business units are already enjoying economies of scale. Consequently, the desire to come together to form cooperatives will be very weak; but in areas where there are small businesses, there will be the strong desire to pool resources together and establish a cooperative. This is not to say that, cooperative membership is only for relatively small business units. It is advantageous, especially in the area of cost reduction, to recommend a cooperative that accommodates both small and the relatively large units in order to achieve efficiency.

3.2 Lifestyles of Prospective Member

There are again two extreme lifestyles that need to be considered. Let us look at these one after the other.

(a) A nomadic lifestyle

This lifestyle is characterised by constant movement of family, homestead and economy of the producer. This lifestyle makes it difficult to establish cooperatives. The “group”- which is very basic of the formation of cooperative, does not exist in this type of set-up. Moreover, the area of operation and the fixed address of the cooperatives as required by law cannot be established in a nomadic lifestyle.

(b) A sedentary lifestyle

This is the opposite of the nomadic lifestyle. It is characterised by fixed abode in specific settlements. That is where group bases and inter personal relationship are much more likely to occur. It is upon these bases that cooperatives can be established.

3.3 Impressions of Prospective Members about the Performance of Existing Businesses

Obviously, there are still other forms of businesses apart from cooperatives. In fact, cooperatives constitute just one form of business. Consequently, in a given area, there could be other businesses operating there. If prospective members have found the performance of these businesses to be unsatisfactory, that is, if they are dishonest, charging exorbitant fees and supplying substandard products, and do not deliver on schedule, the probability is high that they will be favourably disposed to forming cooperatives as an alternative to the sharp practices of the other businesses.

However, if these other businesses are doing good jobs, supplying good quality products, providing efficient service, charging moderate prices and so on, then the desire to form cooperatives will not be that strong. Suffice it to say that there is the need for adequate information as to the real activities of business organisations, especially in a developing country. This is because the actual operations of business organisations are not disclosed to the public. It is a known fact that, some organisations will even publish two sets of accounts- the one meant for public consumption and the one for the internal members of the organisation.

Obviously, the general public will not know the exact amount incurred in producing a given item, let alone finding out whether they are being cheated or not. In the same vein, if existing cooperatives are seen as inefficient, if the officials are corrupt and not prepared to listen to their members, the impression arising from this will be extended to all forms of cooperatives generally.

3.4 Existing Geographical Conditions and Social Structures

In general terms, where natural geographical conditions are difficult and unfavourable, the inhabitants of such areas show a high sense of the need to co-operate. This is because individual survival lies in the survival of the group, care and support for each other. Also, an area having high population density tend to offer better chances of the people coming to form co-operatives when compared to an area where the inhabitants are scattered and with no good communal or interpersonal relationships.

Similarly, in a community where the people are vibrant, with strong local leadership, and virile social groupings, modern cooperatives can take-off, easily, on these structures; particularly, where the structures are seen as established, existing traditions.

3.5 Availability of Promoters

It quite does occur that, it is not in all cases that members of a profession or trade will organise members of the same profession to form a cooperative. For example, an electrician may organise fellow electricians to establish a cooperative. It is very likely too that an outside person can be so motivated to bring others together to form a cooperative. This outside person may not even belong to the same social or economic class. Such an individual is called a promoter.

This means that the members of the cooperatives he has formed did not just get up and act on their own without any external influence. They were prompted and prodded. Therefore, the activities of promoters are important here.

3.5.1 Types of Promoters

In developing countries such as Nigeria, promoters include philanthropists, religious bodies, trade union, government and existing cooperative institutions. Let us take a look at these briefly.

(a) Individual philanthropists

The philanthropists, in some cases can be politicians, who are, generally, not trusted that much; they are viewed with suspicion.

(b) Religious bodies

Faith-based organisations have been very active in some cases. However, with the increase in religious fanaticism and rivalry between Muslims and Christians, and also internal rivalry within the sects, there is the danger that the cooperatives promoted by these bodies may become not only exclusive, but also instruments in the settlement of scores between rivals.

(c) Trade unions

Trade unions have also been active in the promotion of cooperatives. However, the danger in trade union trying to promote cooperative is in using the cooperative as a weapon for ideological warfare. The right attitude is simply to regard the cooperatives as an alternative form of business.

In addition, while trade union and cooperatives have some things in common, there are areas of differences which, if ignored, can lead to frictions and tensions in the overall activities of cooperatives of the state or country.

(d) Government as promoters

It is a fact that, government promoters often tend to not only promote but to dominate and even take over the cooperatives when eventually established. In this case, the cooperatives tend to become mere instruments for pursuing government's aims and objectives rather than those of the members. Such institutions do end up as pseudo-cooperatives, rather than actual cooperatives. As such, government promotional motives for cooperative are not altruistic.

(e) Existing cooperative institutions

Existing cooperative institutions can also be promoters. For example, the unions, the apex organisations, among others can, and should sponsor and promote cooperatives.

SELF-ASSESSMENT EXERCISE 2

Select a familiar Community, taking the factors we have considered above into cognizance, list the conditions that have engendered the establishment of cooperatives in this community.

Also, indicate the type of cooperatives that can be established. Give reasons.

4.0 CONCLUSION

Having looked at the major promotional motives of cooperative business enterprises, you would have seen that the motives do not exist in isolation. They should be seen via a checklist. It is not in all cases that all the conditions will be positive or negative. You should be able, therefore, to assess whether the positive ones outweigh the negative, and vice versa. This outcome of the analysis will inform the decision whether to promote (establish) a cooperative or not.

5.0 SUMMARY

In this unit, you have been taught the motives behind the promotion of cooperative business enterprises. These motives are both economic and non-economic. If a decision is taken to establish a cooperative, such a business entity must survive and continue to be in business.

6.0 TUTOR-MARKED ASSIGNMENT

1. List and discuss the problems faced by individuals in their economic units such as small-scale industries, household settings and agricultural sector.
2. How do government promoters influence the decision to establish cooperatives in Nigeria?

7.0 REFERENCES/FURTHER READING

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

MODULE 2

| | |
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| Unit 1 | The Need for Individuals with Similar Problems to Come Together to Form a Cooperative |
| Unit 2 | Conditions under which a Cooperative Enterprise can Perform Effectively. |
| Unit 3 | Effects of Cooperative on the Members and the General Public |
| Unit 4 | Explanation on the Terms “Groups”, “Sub-Groups” and “Bandwagon Effects” in a Cooperative |
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UNIT 1 THE NEED FOR INDIVIDUALS WITH SIMILAR PROBLEMS TO COME TOGETHER TO FORM A COOPERATIVE

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| 7.0 | References/Further Reading |

1.0 INTRODUCTION

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

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

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

3.1 The Need for Co-Operation

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

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

Traditionally, cooperatives as an economic system and business enterprise satisfy these needs. As producers, who unite on the basis of their mutual interest in reducing living expenses (or cost of production for producers cooperatives), cooperatives are indispensable for the transformation of communities. Also, considering the fact that cooperative members benefit from the ownership and control of production facilities, and of accommodation shared by all, their contributions to natural economic growth is not in doubt. Now let us consider the basic essence of co-operation.

(a) Satisfaction of economic needs

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

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

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

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

(b) Meeting sociological and psychological needs

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

This isolation is not felt in the villages as family ties are stronger in the rural areas. People do visit one another without prior notice. Every member of the community, to some extent, shares joys and sorrows alike; what affects one person affects the other person as well. People in villages come from almost the same backgrounds - as regards ethnic affinity/tribe, religion, culture, among others. Notwithstanding the above, people join cooperatives- which is fairly an association of like minds, to bridge the gap created by loneliness and isolation.

(c) Enhancement of security and protection

The need arises because the average life span of a human being is replete with one form of crisis or the other; that is, there are many risks in life. These risks or crises cannot be known in advance and may catch one unawares and unprepared. In developed countries, governments do put elaborate plans in place to absorb the impact of crises arising from such events as illness, unemployment, legal problems, amongst others.

Unfortunately, this cannot be said of developing countries, like Nigeria. For instance, while social security is provided for citizens of developed countries such as England, Canada and United States of America- to

mention but a few, the same cannot be said of citizens of Nigeria. We always bear our cross alone. More worrisome is that this lack of care for Nigerians by our government is compounded when it is realised that the extended family, which used to play this role, is often not as intact, as it used to be, in rendering assistance to the less privilege members of the family. The traditional norm of being our brother's helpers has been greatly affected in the negative sense by civilisation.

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

(d) Quest for personal admiration

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

SELF-ASSESSMENT EXERCISE 1

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

(e) Keeping with the neighbour

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

desire to catch up, decided also to join the cooperatives. This has a bandwagon effect.

(f) Impulsive reason

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

(g) The need to obey custom and traditions

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

(h) As a launching pad

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

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

(i) Curtailing external pressure

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

Legislations were enacted in such countries, which made membership to be mandatory.

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

SELF-ASSESSMENT EXERCISE 2

How can cooperative be used as a launching pad?

4.0 CONCLUSION

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

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

5.0 SUMMARY

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

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

6.0 TUTOR-MARKED ASSIGNMENT

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

7.0 REFERENCES/FURTHER READING

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

UNIT 2 CONDITIONS UNDER WHICH A COOPERATIVE ENTERPRISE CAN PERFORM EFFECTIVELY

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Factors that can enhance the Success of Cooperative Enterprises
 - 3.2 Bonding Members of Staff
 - 3.3 Cooperative Propaganda/Publicity
 - 3.4 Auditing the Accounts of the Cooperative Society
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor–Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

In order for a cooperative to grow and develop, the members must be transparent, honest, hardworking and diligent as far as their activities are concerned. This is because, in the cooperative set-up, members are both the owners of the business as well as the end users of products and/or services. The point that members should be seen by outsiders as living above board has always been emphasised in almost every discussion on a cooperative enterprise. In other words, members should be seen by non-members as people of high integrity and morally upright, producing good quality products and services. No doubt, all these attributes will attract non-members to join or form cooperatives.

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

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

3.1 Factors that can enhance the Success of a Cooperative Enterprise

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

(a) The relationship between members and the cooperative society

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

(b) Minimise over-emphasis on the interest of the cooperative enterprises

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

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

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

(c) Complete neglect of the interest of the cooperative business enterprise should be discouraged

This can take any of the following forms.

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

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

SELF-ASSESSMENT EXERCISE 1

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

(d) Closing records yearly

All transactions of the cooperatives must be properly recorded in the books of account. At the end of the financial year, which is usually 31st March, every year, the accounts should be closed. The preparation of the final accounts should commence immediately. This is very important, so that the Annual General Meeting (AGM) can take place within the year; also, all resolutions and other discussions made during the previous annual general meeting, as well as the regular meetings of the cooperative held during the year should be implemented. If this is not the case, the issue should be investigated. The annual general meeting should be held not more than two months into a new year. This is to allow for a review of the operational result of the past year and to take fresh discussions concerning outstanding issues, and also concerning the new year.

(e) Keeping a bank account

Every cooperative society should operate a bank account where all money for the society should be kept. The cash balance of the society

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

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

(f) Care of members' passbook

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

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

(g) Affiliation to a cooperative union

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

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

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

(h) Need for effective bookkeeping

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

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

3.2 Bonding Members of Staff

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

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

3.3 Cooperative Propaganda/Publicity

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

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

SELF-ASSESSMENT EXERCISE 2

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

3.4 Auditing the Accounts of Cooperative Society

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

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

4.0 CONCLUSION

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

5.0 SUMMARY

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

6.0 TUTOR –MARKED ASSIGNMENT

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

7.0 REFERENCES/FURTHER READING

Adesina, D. (1998). *Essential Information on Cooperative Societies*. Ibadan: DAC-PRINTS.

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

UNIT 3 EFFECTS OF COOPERATIVE ON THEIR MEMBERS AND THE GENERAL PUBLIC

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The Effects of Cooperatives on their Members and Non-members
 - 3.2 Explanation of Cooperative Effects
 - 3.3 Distinction between various Types of Cooperative Effects
 - 3.4 Effects/Influence of Cooperatives on Non-members (the Public)
 - 3.5 Some Achievements of Cooperative Enterprises
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further reading

1.0 INTRODUCTION

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

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

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

3.1 Effects of Cooperative on their Members and Non-members

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

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

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

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

(a) Positive factors

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

(b) Negative factors

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

3.2 Explanation of Cooperative Effects

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

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

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

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

SELF-ASSESSMENT EXERCISE 1

Explain the contributions of cooperatives to our economic lives.

3.3 Distinction between various Types of Cooperative Effects

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

- (a) Positive cooperative effect is when the total level of satisfaction after becoming a co-operator is higher than the total level of satisfaction before becoming a member of the cooperative.
- (b) Negative cooperative effect occurs when the total level of satisfaction before becoming the member of a cooperative and

participating in its activities is higher than the total level of satisfaction after becoming a member.

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

(1) Price effects

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

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

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

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

(2) Increased acceptability to economic circles

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

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

The economic advantages that result in increased acceptance are:

- high income
- lower cost

- loans
- technical training and advice
- increased productivity.

(3) Increased adaptability

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

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

(4) Increase possibility of investment

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

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

(5) Possibilities of specialisation

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

(6) Transfer, sharing and diversification of risk

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

(7) Educational effects

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

The effect of cooperative education results in:

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

(8) Social effects

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

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

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

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

The essential nature of cooperative model or form of organisation enhances public well being. It is indeed, incontestable that, the United Nation's Millennium Development Goals (MDGs) and the poverty reduction strategy of the World Bank need in-puts from cooperative activities, if they are to succeed. Obviously, the attainment of the *MDGs* will lead to human development.

3.5 Some Achievements of Cooperative Enterprises

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

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

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

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

SELF-ASSESSMENT EXERCISE 2

List the benefits of cooperative businesses as outlined above.

4.0 CONCLUSION

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

5.0 SUMMARY

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

6.0 TUTOR-MARKED ASSIGNMENT

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

7.0 REFERENCES/FURTHER READING

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

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UNIT 4 EXPLANATION OF THE TERMS “GROUPS”, “SUB-GROUPS” AND “BANDWAGON EFFECTS” IN COOPERATIVE

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Meaning of Groups and Sub-groups
 - 3.2 Meaning of Bandwagon Effects
 - 3.3 How to Minimise Conflicts between Groups
 - 3.4 How Cooperatives are Organised
 - 3.5 What are the Strengths and Weaknesses of Cooperative Business?
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

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

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

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

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

3.1 Meaning of Groups and Sub-groups

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

- main interests
- socio-economic factors
- gender
- trade (profession)
- tasks to be performed.

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

3.2 Meaning of “Bandwagon Effects”

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

Since William Jennings Bryan used the phrase “hop on the bandwagon” during his 1990 presidential campaign, it has itself become a trendy term to express the naïve adoption of popular trends, simply because they are popular. Let us ask at this juncture, why is bandwagon useful, especially in a cooperative set-up?

Like most bias, bandwagon effect is useful because it out-sources thinking. Rather than have to think about a particular decision or

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

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

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

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

SELF-ASSESSMENT EXERCISE 1

Define the term "bandwagon effects."

3.3 How to Minimise Conflicts between Groups and Sub-Groups

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

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

- defining the task of each group from the onset
- making provisions for amendment
- putting like-minded people in the same group

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

3.4 How are Cooperatives Organised?

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

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

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

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

SELF-ASSESSMENT EXERCISE 2

List how to minimise conflicts between groups in a cooperative.

3.5 What are the Strengths and Weaknesses of Cooperative Business?

In comparison with regular commercial business, cooperative has certain advantages or strengths and disadvantages or weaknesses. Its main advantage is that it exists and operates for the benefits of its members. At the same time, since members are also owners, they have financial interest in the success of the cooperative, which sways them toward giving it their full support and patronage. Cooperative members also

have a voice in the control of the organisation within the limits of majority rule; it therefore supplies the kind of service they want.

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

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

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

4.0 CONCLUSION

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

5.0 SUMMARY

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

6.0 TUTOR-MARKED ASSIGNMENT

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

7.0 REFERENCES/FURTHER READING

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UNIT 5 SOURCES OF CAPITAL IN COOPERATIVE SOCIETIES

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 How Cooperative Activities are funded
 - 3.2 The Gearing Ratio (Financial Leverage)
 - 3.3 Which Kinds of Funds are best?
 - 3.4 The Importance of Type and Source of Capital
 - 3.5 Legal Framework and Support
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

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

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

3.1 How the Activities of Cooperatives are funded

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

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

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

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

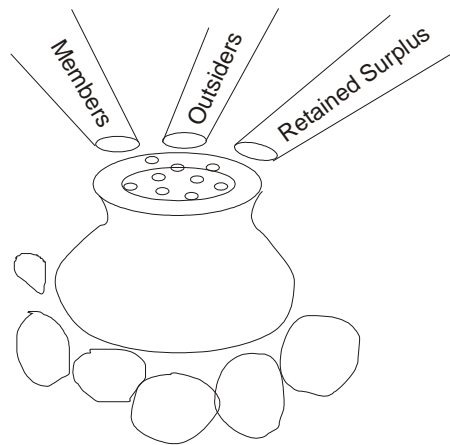


Figure 10.1: Illustration of Sources of Funds in a Cooperative

(a) Funds from members

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

- Annual membership fees.
- Members' contributions with no individual ownership attached, such as service fees.
- Members' share capital
- Individual members' deposits with the cooperative, which may be used for business.
- Deferred payment to members for part or all of their products delivered to the cooperative.

Members' share capital represents individual member's contribution to the cooperative form of business. It also identifies the individual members' financial stake in the society. It is withdrawn only when the

member leaves the cooperative. Some other forms of contributions from members, usually related to patronage, are more variable, but once given, cannot be withdrawn and hence, they are a particularly useful form of capital.

SELF-ASSESSMENT EXERCISE 1

List sources of capital in cooperative.

(b) Funds from retained surplus

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

Of course, retaining such funds also represent a cost to individual members who otherwise would have had that portion of the surplus allocated to them. Members willingly accept the cost when the benefits it creates for them are clear and worthwhile. The source of funds from retained surpluses is often called "institutional capital", and represents the collectively-owned wealth of the cooperative.

(c) Funds from outsiders

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

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

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

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

Non-commercial providers, such as governments or donors, generally provide credit on more generous terms at below market rates of interest;

or they also provide grants. Their motivation may be social, political or economical, or often a mixture of all these.

3.2 The Gearing Ratio (Financial Leverage)

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

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

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

Gearing = funds borrowed- (institutional and members' capital plus funds borrowed) ×100.

For example, a cooperative may have ₦9, 000,000 worth of assets that it has fully paid for. If it borrows ₦9, 000,000 from bank, it would have a high gearing ratio of (50 percent)². If on the other hand, the cooperative borrows only ₦1, 000,000, the low gearing ratio of 10 percent indicates a much lower level of risk .

$$(1) \quad \text{i.e. gearing ratio} = 9,000,000 \div (9,000,000 + 9,000,000) \times 100 = 50\%$$

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

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

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

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

3.3 Which kinds of Funds are best?

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

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

3.4 The Importance of Type and Source of Capital

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

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

Short-term seasonal loans from a bank, to finance the purchase of a harvest by a marketing society for example, have to be repaid within a

few months of the harvest. These funds are also generally, relatively expensive. However, as this example suggests, such short-term loans can be very useful for a cooperative.

SELF-ASSESSMENT EXERCISE 2

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

3.5 Legal Framework and Support

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

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

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

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

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

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

4.0 CONCLUSION

Having looked at the major sources of funding for cooperatives, you should note that some of the sources of funds have inherent risks. You must, therefore, be able to assess the kind of funding that is suitable for a particular cooperative society. The outcome of such assessment will inform the decision whether to choose a particular source of capital or not.

5.0 SUMMARY

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

6.0 TUTOR-MARKED ASSIGNMENT

1. What do you understand by the term, “Gearing Ratio”? Calculate the gearing ratio for a society with institutional capital and capital from members worth ₦10, 000,000 that borrowed ₦5, 000,000 to fund its activities.
2. List the sources of capital for a cooperative. Which of these sources are less risky?

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MODULE 3

| | |
|--------|---|
| Unit 1 | Distinction between Fixed Capital and Working Capital |
| Unit 2 | Possible Investment Opportunities Open to Cooperatives in Nigeria. |
| Unit 3 | Criteria for the Classification of Cooperative |
| Unit 4 | Types of Cooperative Societies, their Functions and Assessment of the Correctness of Available Classification |
| Unit 5 | Similarities and Differences between Single-purpose and Multipurpose Cooperatives, their Characteristics |

UNIT 1 **DISTINCTIONS BETWEEN FIXED CAPITAL AND WORKING CAPITAL**

CONTENTS

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| 3.3.1 | Investment Risk of Fixed Capital |
| 3.3.2 | Sources of Funding for Fixed Capital Investment |
| 3.3.3 | Factors which Influence Fixed Capital Requirements |
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| 3.5 | Calculation of Working Capital |
| 4.0 | Conclusion |
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| 7.0 | References/Further Reading |

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 organisation 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 analysed 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.

- (1) Funds from members
- (2) Funds from business surplus
- (3) 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 1

Define Fixed Capital.

3.4 Working Capital

Working capital can be considered as follows:

- (1) The assets of a business that can be applied to its operation.
- (2) 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-
 $\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$.

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 2

Calculate the working capital of a cooperative enterprise with a current assets of ₦10 million and current liability of ₦15 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 TUTOR–MARKED ASSIGNMENT

1. Distinguish between fixed capital and working capital.
2. Explain in your own words, the following terms.
 - (a) Fixed capital
 - (b) Working capital
 - (c) Accounts receivable
 - (d) Inventories
 - (e) Account payable.

7.0 REFERENCES/FURTHER READING

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UNIT 2 POSSIBLE INVESTMENT OPPORTUNITIES OPEN TO COOPERATIVES IN NIGERIA

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 History of Formal Cooperatives' Development in Nigeria
 - 3.2 Meaning/Areas of Investment
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

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, which 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 1

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.

(1) 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.

- (a) The physical structure adds to the prestige and fame of the owner.
- (b) There is regular income from rent.
- (c) Buildings are real assets that may be used as security for bank loans
- (d) The value of building increases in sympathy with the rate of inflation.
- (e) A building cannot be stolen or cannot suddenly become valueless.
- (f) Risk of destruction can be insured.

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

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

(2) 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.

(3) 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.

- (i.) Farming
- (ii.) Livestock
- (iii.) Poultry
- (iv.) Snail farming
- (v.) Bees keeping
- (vi.) Piggery
- (vii.) Grass-cutter farming
- (viii.) 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 2

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 analysing 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 TUTOR-MARKED ASSIGNMENT

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

Adesina, D. (1980). *Essential Information on Cooperatives Credit Services*. Ibadan: DAC prints.

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

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Criteria for the Classification of Cooperatives
 - 3.1 Based on Economic Factors
 - 3.1.1 Based on Economic Status of Members
 - 3.1.2 Based on the Sector of the National Economy
 - 3.2 Based on the Legal Status of the Cooperatives
 - 3.3 Based on the Geographical Area
 - 3.4 Based on Operational Frameworks
 - 3.4.1 Based on the Organisational Level of Operation
 - 3.4.2 Based on Functions Performed
 - 3.4.3 Based on the Members of Fields Operation
 - 3.5 Based on Relationship between the Management and the Members
 - 3.5.1 Based on the Size of Membership
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

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:

(1) Economic factors

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

i. Economic status of members

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

(a) **Producers' cooperative**- if they are producers of goods and/or services. This can be further broken down as follows.

- i. Farmers' cooperatives
- ii. Traders' cooperatives
- iii. Craftsmen's cooperatives

(b) **Consumers' cooperative**- if the members are consumers of household items, which they seek to obtain from the cooperative.

(c) **Workers productive cooperative**- where workers want to obtain the best remuneration for their labour input through their cooperatives.

ii. 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.

(a) Agricultural cooperatives

These are the cooperatives that engaged in the agricultural sector.

(b) 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.

(c) Trading (wholesale/retail) cooperatives

They are cooperatives that are engaged in the trading sector.

(d) Service cooperatives

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

(2) Legal status of the cooperatives

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

- (a) 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:
 - (i) 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
 - (ii) 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.
 - (iii) 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.
- (b) Unregistered cooperatives-** these are cooperatives that have not been fully registered and operating.

(3) Geographical area

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

- (a) urban cooperative-** which operates in an urban area; and
- (b) rural cooperative** that operates in rural areas.

SELF-ASSESSMENT EXERCISE 1

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

(4) Operational framework

These are as follows:

(1) Organisational level of operation

The scenarios here are listed below:

- a) **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.
- b) **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.
- c) **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.

(i) 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.

(ii) Federation

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

iii) An apex cooperative

This is the same thing as functionally specialised natural cooperatives, e.g. **National Cooperatives Federation of Nigeria Limited**.

(2) Based on functions performed

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

- (a) **Productive cooperatives-** which again exist in two forms, as listed below.
 - (i) **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**.
 - (ii) **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**.
- (b) **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.

(c) Based on the number of field of operation

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

- (i) **single-purpose cooperative**, e.g., marketing cooperative.
 - (ii) **multipurpose cooperative**, which is the one that has more than one field of activity.
- (5) Based on the relationship between the management and members of the cooperative.**

Here, we can have these variables.

- a) **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 organisations. The members of the traditional cooperative, usually, make explicit demand for particular services, and management must comply.
- (b) **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.

- (c) **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.

(1) Size of membership

Here, the cooperatives are classified as follows:

- (a) **Small cooperatives**, mostly seen in rural areas.
- (b) **Medium cooperatives**, which have numerical size larger than the small cooperatives; and
- (c) **Large cooperatives**, which size of membership is larger than the medium cooperatives.

SELF-ASSESSMENT EXERCISE 2

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

- a) Group farmers' cooperative societies.
- b) Agricultural cooperative societies.
- c) Fishermen cooperative societies.
- d) Cooperative produce and marketing societies.
- e) Transport cooperative societies.
- f) Cooperative thrift and credit societies.
- g) Mechanics of commerce and tourism workers thrift and credit society.
- h) Confluence beach hotel cooperative societies.
- i) 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 TUTOR-MARKED ASSIGNMENT

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

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

Owojuyigbe, S. (1998). *Cooperative Administration and Fieldwork in Nigeria* (2nd Ed.). Ibadan: Anu Olu Publishers.

UNIT 4 TYPES OF COOPERATIVE SOCIETIES, THEIR FUNCTIONS AND ASSESSMENT OF THE CORRECTIVENESS OF AVAILABLE CLASSIFICATION

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Cooperatives in Agriculture Sector
 - 3.2 Cooperatives in Commercial Sector
 - 3.3 Cooperatives According to Professional Trades
 - 3.4 Cooperatives in Savings/Investment Sector
 - 3.5 Assessment of the Correctness of Available Cooperative Classification
 - 3.5.1 Functions of Cooperative Societies
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

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:

(A) 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.

(B) 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.

(C) 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:

(a) 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 1

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.

(b) 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.

(c) 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

(a) 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.

(i) Mechanic cooperative societies

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

- (1) 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.
- (2) The cooperative can give loans to the members for the purpose of enlarging their workshop or engaging in other business for those who desire.
- (3) There can be exchange of ideas among members especially during meetings or informal gatherings...

(ii) 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-

fertilisation 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.

(iii) 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

(a) 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 mobilise 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.

(b) 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.

(c) 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.

(d) 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 2

List types of cooperative societies and explain their functions.

3.5.1 Functions of Cooperative Societies

(a) Economic functions of multipurpose cooperative society

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

(b) Economic functions of agricultural cooperative society

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

c) Economic functions of group farmers cooperative societies

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

d) Economic functions of consumer cooperative societies

- (i) Members buy essential goods at reasonable prices.
- (ii) 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 emphasised 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 TUTOR-MARKED ASSIGNMENT

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: Anu Olu Publishers.

UNIT 5 SIMILARITIES AND DIFFERENCES BETWEEN SINGLE-PURPOSE AND MULTIPURPOSE COOPERATIVES

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Meaning of Single-Purpose and Multipurpose Cooperatives
 - 3.2 Similarities between Single-Purpose and Multipurpose Cooperatives
 - 3.3 Differences between Single-Purpose and Multipurpose Cooperatives
 - 3.4 Factors that Distinguish Single-Purpose from Multipurpose Co-operatives
 - 3.5 Examples of Single-Purpose and Multipurpose Cooperatives in Nigeria
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

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 mobilised
- 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 by-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 organisations
- 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 1

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:

- (a) 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.

- (b) The main type of the cooperative is also another factor, which determines the singleness or the multipurpose nature of a society.
- (c) 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:

1. primary cooperative- whose members are individuals.
2. secondary cooperatives- whose members are primary cooperatives
3. 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.

- Firstly, cooperatives where members are also the users. In this category, are consumers' cooperatives, savings and credits cooperatives, housing cooperatives, insurance cooperatives etc.
- Secondly, 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:

- membership
- types of general meetings
- extra-ordinary meetings
- committee of the cooperative; and
- 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 pressurised 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 ₦50, 000.00 to ₦200, 000.00, payable over a period of between 24 to 60 months.

SELF-ASSESSMENT EXERCISE 2

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 TUTOR-MARKED ASSIGNMENT

1. Carefully analyse 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 REFERENCES/FURTHER READING

Zvi, Galor. (2008). *Cooperative Law*. Oklahoma Food Cooperative.
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