

INTERNATIONAL AGRICULTURAL COOPERATIVES

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Summary

Agriculture and cooperatives are closely linked in most countries and regions. From the experience of cooperatives in the six countries examined in this contribution—Japan, Israel, the former Soviet Union, Canada, India, and China—it is clear the cooperative model works in a variety of environments and for a variety of problems, and that the cooperative model is highly adaptable to its environment.

To understand cooperatives and why they were formed requires detailed knowledge of the social, economic, and political conditions present at the time of formation. The starting conditions for cooperatives determine, in part, the path they took in their development, where they are today, and the types of problems they currently face. Evidence from the countries examined here suggests that cooperatives flourish in a developing economic environment where the market infrastructure is relatively inefficient and individuals need collective action to strengthen their position, but that reliance on cooperatives diminishes as the level of market services and the general standard of living of the rural population increase.

The factors and features determining cooperative success are numerous and highly complex. Cooperative success cannot be predicted on the basis of a few “independent” variables. Instead, co-ops must be understood as complex organisms that respond to and influence the environment in which they operate.

Although cooperatives currently face immense pressures for change, the nature of these pressures and the range of options open to each cooperative differ. It must be remembered that the unique structural characteristics of cooperatives in each country are responses to specific environmental features and therefore specific cooperative models cannot always be transplanted from one region to another. Nevertheless, the different structures and ways of operating in different countries provide an excellent opportunity for cooperatives in one country to learn from cooperatives in other countries.

1. Introduction

Cooperatives (also sometimes called co-ops) play a significant role in the agricultural sectors of many countries. The purpose of this article is to describe in some detail the role of cooperatives in six countries: Japan, Israel, the former Soviet Union, Canada, India, and China. These countries provide a wide spectrum of cooperative experience. Japan is the largest food importing country, while China and the former Soviet Union are converting from state controlled to private enterprise economies.

What is a cooperative? One way to answer this question is to examine what people around the world include under the heading cooperative. Imagine sitting with a group of people from different countries who are familiar with cooperatives in their home country. If these people are asked to describe cooperatives in their country, the range of responses is immense. Some describe cooperatives as strong independent companies doing billions of dollars worth of business; some describe organizations that are essentially extensions of government, with co-op leaders appointed by government officials. Some describe organizations that do much more than simply market a product or supply an input, but instead govern and affect virtually all aspects of people's lives. Some describe enterprises that are essentially investment vehicles for their members; some describe organizations that have effectively been taken over for the benefit of a few individuals; some describe enterprises with high levels of corruption and virtually no trust among members and between members and management; and some describe ventures that wield substantial economic and political power.

In listening to these responses it is clear, first, that cooperatives come in many shapes and sizes, and, second, that not all of what are described as cooperatives are truly cooperatives. Listening to these responses makes it clear that the variations in the cooperative model are immense.

Listening to the responses also quickly dispels any notion that cooperatives are one-dimensional or that they can be explained by any one theory. While economic factors, such as market failures, clearly figure prominently in cooperative development and involvement, models that focus on economic factors exclusively have little chance of capturing the richness of the cooperative experience. This observation is important because it suggests that if cooperatives are to be understood, they must be viewed not only through an economic lens; cultural, political, and social dimensions also greatly affect the development of cooperatives.

Nevertheless, what does emerge from listening to the responses is that virtually all cooperatives around the world share some common features. Cooperatives, where they have succeeded and where they can truly be called cooperatives, are inevitably a response to some sort of failure of either the government or the market. Cooperatives are the result of actions by people who saw something wrong in their economic or social environment and who decided the way to solve the problem was to tackle it as a group, rather than as individuals.

Cooperatives also succeed where they are effectively owned and operated by their members. Indeed, what differentiates cooperatives from other organizations in society and the economy is the dual role played by the member, who is both owner and user of the enterprise. This dual nature is both the source of the cooperative's strength and the source of some of its weaknesses. Because members are both owners and users, they are able to balance the need to make profit with the need to provide a service. Indeed, it is this demand for balance that is most often at the root of cooperative formation. This balance is not easy to maintain, however. When member interests shift too much in one direction, the cooperative often finds itself in trouble.

Cooperatives have another duality—cooperatives are typically both an association of people and a business enterprise. The associative aspect is important. As the examples in this article illustrate, cooperatives are more than just businesses—other aspects such as ideology, commitment, and values play an important role in their formation and operation.

Beyond these commonalities, however, cooperatives differ greatly, not only in the problems they were originally formed to help solve, but also in the social and economic environments into which they were born. For instance, the background for the formation of the kibbutzim in Israel in 1948 (the need to settle penniless immigrants who had no farming experience, combined with state ownership of practically all farmland) is much different from the background for the formation of the new cooperatives in Russia and the Ukraine today.

The similarities and differences among cooperatives are explored in this article by examining the history and current issues facing cooperatives in six different countries:

Japan, Israel, the former Soviet Union, Canada, India, and China.

2. Cooperatives in Japan

Japan is the largest food importing country in the world and it maintains a highly protected agricultural industry. Agricultural cooperatives, known as *nokyo*, provide both the power and the means to maintain these policies.

The Japanese government strongly supported the development of cooperatives after Japan emerged from more than 300 years of isolation with the Meiji Restoration in 1868. Though cooperatives suffered major financial losses coincident with the worldwide depression of the 1930s and were virtually halted during the final years of World War II, they were reestablished in 1947. The land reform program introduced by the occupying military forces following the war gave tenant farmers control over the relatively small plots of land they had been farming. Cooperatives were expected to play a major role in improving agricultural productivity. Due to severe size restrictions, farm size remains very small, with only 2% of farms larger than five hectares (ha).

Nokyo are all encompassing in the rural areas of Japan. Farmers sell their products to and buy their inputs from the cooperatives. Nearly all farmers have accounts at the cooperative banks where payments are made (including government subsidies). They use cooperative banks for operational and investment loans and they buy their insurance from a cooperative. The cooperatives even organize clinics and workshops to teach young people how to farm and young women how to be good housewives and mothers. The most profitable businesses run by agricultural cooperatives have been credit, purchasing, and mutual insurance. The agricultural cooperatives have become major lenders to the non-agricultural population and today agricultural lending is only a small part of their portfolios. The Norin-chukin bank (owned by the agricultural cooperatives) is one of the largest banks in the world in terms of deposits and assets. Heavy lending by agricultural co-ops for urban housing in the late 1980s and early 1990s contributed to huge financial losses when property values plummeted. The losses threatened to bankrupt some of the cooperative finance federations until a large government bailout scheme was negotiated in 1996.

Other cooperatives have evolved out of primary agriculture. Although purchasing co-ops still carry inputs for farm production, a much larger part of their business has become consumer goods like rice and other items for daily consumption. The mutual insurance business includes the sale of fire, automobile, building, life, and children's insurance policies.

The source of *nokyo*'s power is rice and money. As well as having cultural and symbolic value, rice is the backbone of Japanese agriculture. Until recently, the government mandated that most rice be marketed through the agricultural cooperatives. Farmers had to contract with their local cooperatives to receive government advance payments and subsidies. Although the rice market was liberalized somewhat in the mid-1990s, *nokyo* remains a very important component of the rice supply chain in Japan.

Nokyo is known at least as much for its political might as for its business interests. Due

to rural over-representation in the Japanese diet (parliament) and the large number of urban dwellers who have farm interests, a high proportion of the elected members of the diet depend on the support of the well-organized cooperatives. The cooperatives regularly sponsor large rallies in Tokyo and other large cities to encourage the Japanese government to support and protect agriculture. These rallies generally require mandatory attendance and are financed by check-offs on rice marketed. *Nokyo* has also been instrumental in keeping foreign rice out of the country, although a small import opening was granted reluctantly by the Japanese government to conclude the GATT Uruguay Round.

In spite of the Japanese government's attempts to keep domestic farm prices higher than world levels, few farmers can earn enough on their small plots of land to make a decent living. Consequently, farming has become a part-time occupation for most, and more than 80% of farm household income now comes from non-farm sources. The conversion to part-time farmers has given farm cooperatives a more prominent role. Most farmers have little time or monetary incentive to search for alternate suppliers of inputs or purchasers of outputs. Therefore, they rely on cooperatives for most business dealings related to their farms.

In spite of their success since the early 1950s, agricultural cooperatives in Japan are under great pressure to change. They have outlived their original purpose of assisting newly landed farmers who had little technological or business knowledge and few options for buying inputs or markets for their products. The cooperatives now depend much more on their urban clientele than on their farmer members.

Markets are being opened (though slowly) to foreign agricultural goods and new rules allow farmers to sell rice directly to consumers and wholesalers, bypassing cooperatives. Though rice will always be important in Japan, this formerly captive business is not likely to provide the agricultural cooperatives with nearly as much revenue as before.

Old business practices and stiff competition from rivals have reduced the profitability of cooperatives. According to a major Japanese economics newspaper, all businesses operated by agricultural cooperatives in the mid-1990s lost money except for financial services and insurance sales. Although the financial services and insurance sectors remain highly regulated in Japan (virtually ensuring profitability for present firms), foreign (and some domestic) pressure to deregulate much of the Japanese economy puts these profitable sectors at some risk.

A new electoral law (1995) that replaced many of the large multi-seat constituencies with single seat (first-past-the-post) constituencies reduced the political clout of the cooperatives. The smaller, single-seat urban constituencies changed the political balance between the relatively small group of farm people and the overwhelmingly large proportion of urban people (who formerly were under-represented).

Despite the difficulties facing agricultural cooperatives in Japan, *nokyo* remains a powerful business and political institution. Changes occur slowly in Japan and it is

likely that *nokyo* will have time to adapt to new economic and political circumstances to allow it to remain powerful well into the twenty-first century.

3. Agricultural Cooperatives in Israel

The success of Israeli agriculture is linked to the cooperative farm sector, which cultivates 70% of all agricultural land and accounts for more than 80% of agricultural output in Israel. Modern Jewish agriculture developed as cooperative agriculture initially because of socialist ideology and later as a matter of public policy. The socialist ideology of cooperation was imported in the first decades of the twentieth century by Zionist immigrants from Eastern Europe and Russia. The public policy of cooperation was adopted in the pre-independence period (under the British Mandate in Palestine) because of the need to settle penniless immigrants without any farming experience on nationally owned land. (Farmland is traditionally viewed as the property of the entire Jewish nation.) This policy was continued by the State of Israel after its establishment in 1948 for similar reasons.

Membership in Israeli cooperatives is voluntary and members can leave at any time. The cooperatives are managed by democratically elected bodies, without any intervention from authorities. Cooperative officials are normally elected from among the members. In some cases cooperatives hire outside experts to fill certain managerial functions, but these hired managers in turn are typically members of other cooperatives or people with rich experience in cooperative agriculture.

Agricultural cooperation in Israel is organized in two levels, local and regional. The local or primary level includes three distinct forms of village-based cooperatives. Kibbutz and moshav (in plural, kibbutzim and moshavim) are the dominant forms, with collective moshavim occupying a minor intermediate position. The three structures differ in the degree of cooperative control of consumption and production. Consumption decisions are made collectively in kibbutzim, where all the needs of each family are provided by the community. In moshavim and in collective moshavim, on the other hand, the consumption needs are the individual responsibility of each family.

Kibbutzim and collective moshavim are production cooperatives in which all production decisions are made collectively. Land is held by the village community, all equipment is owned collectively, and democratically elected “central production management” is responsible for all aspects of economic activity. Individual members of these cooperatives do not have any household plots for subsidiary production. The average land holdings of a kibbutz are 800 ha, leased in perpetuity from the state.

In a moshav, plots of land are assigned to individual households, and all production decisions are made by the family. The average plot in a moshav is 5 to 6 ha, leased for 49 or 99 years from the state. Households own the buildings on their plots and have some limited-scale farm machinery. Moshav members are thus individual, private producers cultivating their own farms. They rely on a village-level service cooperative that buys and stores farm inputs, collects their products and ships them to regional marketing organizations or processors, maintains a machinery pool and workshops for

members' joint use, and provides other services such as bookkeeping and collection services.

The secondary level of agricultural cooperation is represented by the regional service cooperatives, whose members are the local production cooperatives—kibbutzim and moshavim—and not individual farmers. The regional enterprises maintain sorting, packing, and storage facilities, feed mills, grain elevators, cotton gins, and processing plants. The purchasing organization is also a secondary cooperative. They provide a variety of professional management consulting functions, computer data processing services, and most importantly financial intermediation raising bank credit and allocating it to their members.

Moshavim and secondary regional cooperatives are similar in their purchasing, marketing, processing, and administrative functions to regional cooperatives in the United States. Kibbutzim, on the other hand, have no parallel in Western countries, because they uniquely combine cooperative agricultural production with collective consumption and communal responsibility for all aspects of daily life. These aspects of kibbutz life are strange to market-oriented Western societies. Life in a kibbutz, like life in a monastery, requires strong ideological commitment, and many individuals feel uncomfortably constrained by the communal practices and lack of freedom for individual decision making in kibbutz society.

Originally, moshavim and kibbutzim were established as strictly farming communities that derived their livelihood from land. Technological progress in agriculture, however, has led to a continuous reduction in the required labor inputs, and the agricultural labor force correspondingly has decreased despite the persistent growth of agricultural production. Moshavim solved the problem of labor redundancy in agriculture by gradually shifting to part-time farming. In 1990, less than 60% of the labor force in moshavim was employed in agriculture.

Kibbutzim, on the other hand, solved the agricultural redundancy problem by establishing various industries in the villages to assure employment. Only a few of these industries were related to agriculture (canning, juices, dairy products), while most were in electronics, plastics, and other non-agricultural sectors. In addition to manufacturing industries, kibbutzim also diversified on a large scale into tourism, hotel, and restaurant businesses, utilizing the natural attraction of a stay in a rural community for both domestic and foreign tourists. Today, nearly 40% of the labor force in kibbutzim is employed in industry and tourism, and less than 25% is employed in agriculture (the rest are employed in community services).

Agricultural cooperation in Israel went through a serious financial crisis in the late 1980s. The anti-inflationary government policy in 1986 dramatically raised the real interest rates and eliminated agriculture's traditional access to virtually unlimited and highly subsidized credit. The entire cooperative agriculture system practically went bankrupt in a matter of months. The crisis was unavoidable because during previous decades cooperatives had freely, and possibly irresponsibly, borrowed from generous lines of credit that banks offered to cooperative agriculture with the government's blessing. Easy credit was poured into unprofitable processing enterprises and other

dubious investments; some of the credit was simply used for consumption, without concern for future repayment. All this created a debt burden that suddenly became crushing when government policy changed and credit restrictions were imposed. The general feeling in the late 1980s was that the cooperative movement would simply disintegrate under the impact of the financial crisis.

Yet agricultural cooperatives proved much more resilient. Some moshavim and kibbutzim disintegrated, some regional cooperatives were liquidated, and joint committees of the government, the banks, and the cooperatives spent years trying to work out an acceptable financial settlement, but agricultural cooperation lived on. Kibbutzim and moshavim changed and reorganized, shifting toward greater personal responsibility for finances, emphasizing profitability, diversifying, and learning to live with hard budget constraints. Regional cooperation also continued to play an important role, having shed many unprofitable activities and scaled down some of its overambitious scope. On the whole, the cooperatives survived the crisis of the late 1980s and many important lessons were learned about cooperative management and responsibility.

Perhaps more important than the financial crisis was the mounting social pressure from within that the cooperatives faced from their members. Many young people were tempted to leave the kibbutz and seek their fortunes in the city; the kibbutz no longer offering them a higher standard of living, while the city may offer greater challenge and promise. Many moshav members discovered that, with universal availability of telephones and private vehicles, they no longer needed the purchasing and marketing services of their village cooperative; contrary to the past, when communication and transport were a problem, they could do the job on their own. The combination of increasing personal affluence and very short distances in Israel threatened to make various traditional cooperative activities redundant. This suggests the hypothesis that cooperatives flourish in a developing economic environment, where the market infrastructure is relatively inefficient and individuals need collective action to strengthen their position, and that reliance on cooperatives will diminish as the level of market services and the general standard of living of the rural population increase.

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Biographical Sketches

Murray Fulton is Director, Centre for the Study of Co-operatives and Professor of Agricultural Economics at the University of Saskatchewan, Saskatchewan, Canada. Professor Fulton's research and teaching interests are focused in a number of areas. One is cooperative theory, where he concentrates on the economic theory of cooperatives and theories of group action. A second area is international trade and agricultural policy. Of special interest is the manner in which agricultural policy is formed, not only in Canada, but around the world. A third focus is industrial organization (the study of market structures and institutions, e.g. monopoly, oligopoly), which meshes nicely with his interests in international trade and cooperative theory. Professor Fulton was raised on his family's farm in southern Saskatchewan.

Kurt Klein is professor of economics at the University of Lethbridge, Lethbridge Alberta, Canada. In addition to numerous studies he has conducted in the areas of agricultural policy, trade, and production, Professor Klein has maintained an active interest in a farm in northern Saskatchewan that he formerly operated and managed. Professor Klein has lived, taught, and conducted research at three universities in Japan and made a special study of the role of cooperatives in Japanese agriculture.

Zvi Lerman is professor at the Department of Agricultural Economics and Management, The Hebrew University of Jerusalem, Israel, where he teaches financial management and accounting. He has studied the performance of agricultural cooperatives in Israel and the U.S. relative to investor-owned firms. Since 1991, his research has focused on land reform and restructuring of cooperative farms in transition economies. He has conducted several farm-level surveys in various countries of the former Soviet Union and East Central Europe, including financial surveys of individual farms and large cooperative farms.

Much of the fieldwork has been done in collaboration with the World Bank, and the survey findings have been reported in numerous publications co-authored with World Bank colleagues.

Andrea Harris works as part of a team implementing a sustainability strategy for Mountain Equipment Co-operative (MEC), an outdoor retail cooperative serving 1.6 million members across Canada. Before working with MEC she was a research associate with the Centre for the Study of Co-operatives at the University of Saskatchewan, where she worked on a variety of projects focused primarily on alternative cooperative models in agriculture. She completed her M.Sc. in agricultural economics at the University of British Columbia. Her graduate thesis analyzed the impacts of the diversification of the prairie grain pools. She has also studied rice and hog marketing cooperatives in the Philippines.

D.W. Attwood is a professor of anthropology at McGill University. His monograph *Raising Cane: The Political Economy of Sugar in Western India* explains the historical, social, and economic changes that led to the rise of a large-scale cooperative sugar industry, owned and managed by small cane growers. This book also explains what makes these co-ops more efficient and successful than those in northern India. His more recent book, *Finding the Middle Path: The Political Economy of Cooperation in Rural India* (1995, Westview), was coauthored with B.S. Baviskar. It contains six chapters of comparative and theoretical analysis plus 12 case studies by Canadian and Indian researchers.

B.S. Baviskar (now retired) was a professor of sociology at the Delhi School of Economics, Delhi University. His monograph *The Politics of Development: Sugar Cooperatives in Rural Maharashtra* (1980, Oxford University Press) laid the foundation for social science research on cooperatives in India. With D.W. Attwood, he co-edited *Who Shares? Cooperatives and Rural Development*, a collection of case studies from many regions of the developing world. A more recent book, co-authored with D.W. Attwood, is *Finding the Middle Path*. He has worked as a consultant to the World Bank and as a visiting scholar at the Institute of Development Studies (Sussex). He continues to work as a consultant on rural development and environmental problems and as a training course instructor to government officials.