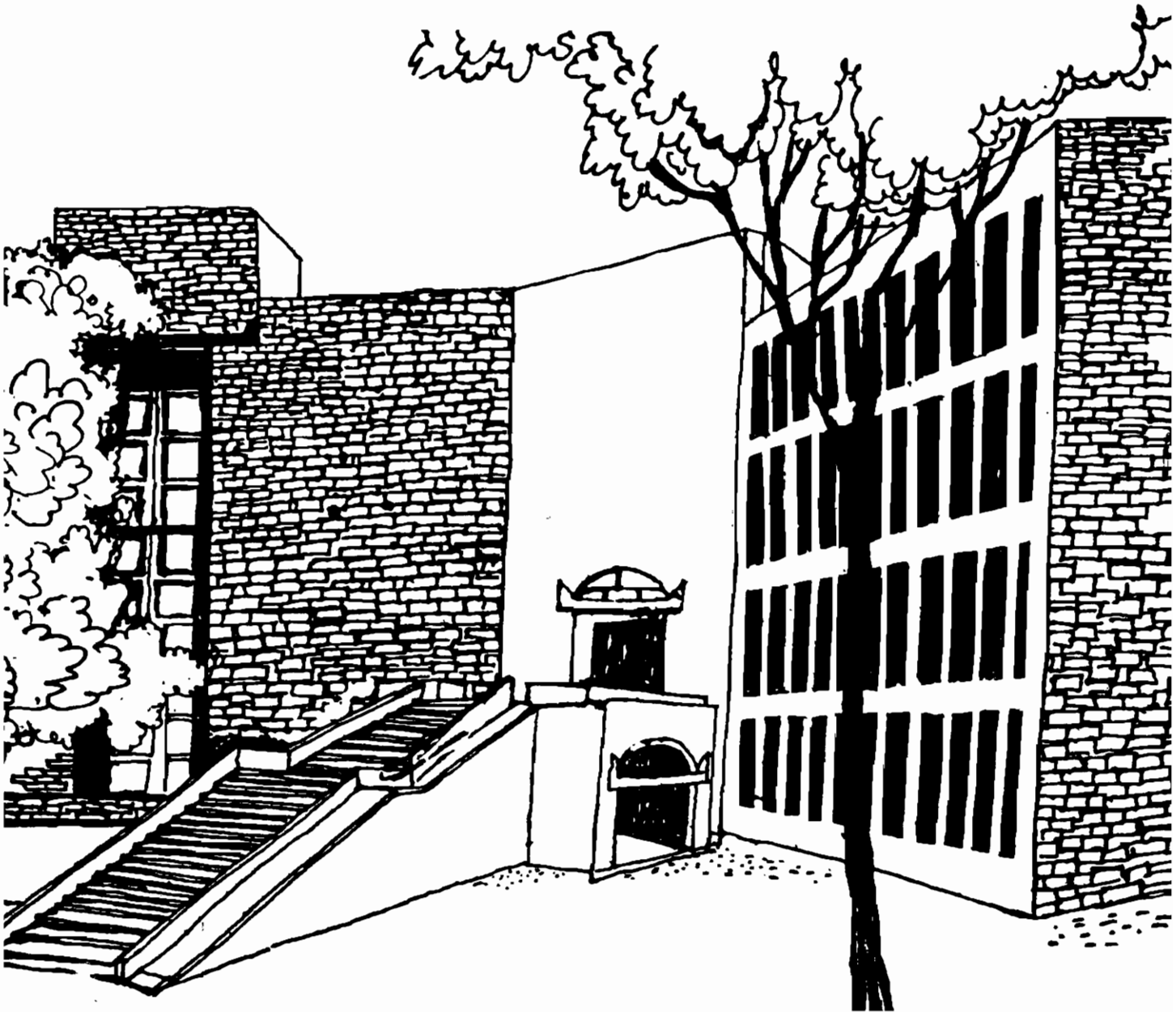




Working Paper



COMPETITIVE STRATEGIES FOR INDIAN
AGRI-BUSINESS COOPERATIVES - A
PERSPECTIVE FOR THE NEXT DECADE

By

Samar K. Datta
Milindo Chakrabarti
&
Kriti Bardhan Gupta

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COMPETITIVE STRATEGIES FOR INDIAN AGRI-BUSINESS COOPERATIVES - A PERSPECTIVE FOR THE NEXT DECADE

Samar K. Datta, Milindo Chakrabarti & Kriti Bardhan Gupta*
**Center for Management in Agriculture, Indian Institute of Management,
Ahmedabad**

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Abstract

In spite of the current rhetorics on the concept of 'Swadeshi', the increasing trend towards liberalisation and globalisation can neither be wished away, nor is it feasible and profitable at this juncture to completely insulate the country from global competition. At the same time there is no point in becoming panicky or over-enthusiastic about globalisation and liberalisation and giving away a simple 'walk-over' to the MNCs and the WTO. The crying need of this hour is to strengthen the basis of a civil society and one of the necessary devices to achieve this objective is to build up and implement competitive strategies for farmer-owned cooperative and cooperative-like organisations following on the examples of most developed countries of the world. Only a balanced approach between these two extreme viewpoints can offer the scope for a healthy development of the Indian economy. The Indian society must be given the opportunity for holding a free and fair play between the MNCs and the Indian business. The present paper attempts to illustrate this point by spelling out competitive strategies for Indian agri-business cooperatives, which constitute a major chunk of India's economic activities with vast potential for growth and employment creation.

* The first author is a Professor to the Center for Mangement in Agriculture at IIM, Ahmedabad, the second author a Lecturer to St. Joseph's College at Darjeeling and the third author a Fellow Programme student at IIM, Ahmedabad. The authors are thankful to the European Union's Library and the Swedish Embassy at New Delhi, the Indian Sugar Mills' Association and the National federation of Cooperative Sugar Factories Ltd. for providing access to valuable information and documents. The authors also wish to acknowledge with gratitude the comments and suggestions received on an earlier version of this paper which was presented in a seminar on 'Agri-business Cooperatives in Punjab: Circa 2010' held at the Lal Bahadur Shastri National Academy of Administration during April 29 - May 1, 1998. The authors alone are however responsible for possible errors in presentation and interpretation of data and information.

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Section 1: Introduction

In spite of the current rhetorics on the concept of 'Swadeshi', the increasing trend towards liberalisation and globalisation can neither be wished away, nor is it feasible and profitable at this juncture to completely insulate the country from global competition. At the same time there is no point in becoming panicky or over-enthusiastic about globalisation and liberalisation and giving away a simple 'walk-over' to the MNCs and the WTO. The crying need of this hour is to strengthen the basis of a civil society and one of the necessary devices to achieve this objective is to build up and implement competitive strategies for farmer-owned cooperative and cooperative-like organisations following on the examples of most developed countries of the world. Only a balanced approach between two extremes of views can offer the scope for a healthy development of the Indian economy. The Indian society must be given the opportunity for holding a free and fair play between the MNCs and the Indian business. While some of the Indian intellectuals and policy-makers may even go out of the way to offer the 'Man of the Match' award to the MNCs even before a game is played, the long-term interests of the country get served only when a real and competitive game between the MNCs and the Indian business is played. The present paper attempts to illustrate this point by spelling out competitive strategies for Indian agri-business cooperatives, which constitute a major chunk of India's economic activities with vast potential for growth and employment creation.

The paper is organised as follows. The next section briefly describes the global context by citing on the anomalous trend in agri-products trade between developing and developed countries and then highlighting the possible role and responsibility of strong farmer-owned organisations. Section 3 reviews the existing literature to find out the relevance as well as the strengths and weaknesses of a cooperative form of business organisation as opposed to an investor-oriented firm (IOF) in today's context. Section 4 brings out the relevance and competitive strengths of Indian agri-business cooperatives. Section 5 cites the examples of two agri-business organisations from Sweden. The final section brings out the lessons from the Swedish and other examples and concludes the paper.

Section 2. The Global Context and the Role & Responsibilities of Farmer Organisations

The long run tendency of the terms of trade to deteriorate for the developing countries which are engaged in export of mainly primary products is fairly well-documented in the literature. This section attempts to extend this argument a bit further by bringing out the anomalous nature of agri-business trade between developing and developed countries for a representative sample of agri-commodities. We argue that between 1961 and 1992, although the developing countries have been producing an increasingly higher proportion of the world output in respect of certain agricultural cash crops, compared to their developed counterpart, their share in the world exports in value terms is not always displaying the same pattern.

For the sake of our argument we have identified the following crops: Coffee, Cocoa & Tea (Beverages Group), Oilseeds, Cotton, Rubber and Tobacco. The databases used are obtained from "Time series for SOFA '93" published by the FAO in 1993. For the present argument, we have formulated two simple concepts: production gap and trade gap between the developing and developed countries (indicated by subscripts d and r respectively). The production gap (PG) refers to the difference in quantity between the production in developing and developed countries for the commodity in question. Thus if P_d stands for the production in the developing countries P_r stands for the same in respect of the developed nations, the production gap PG is then defined as:

$$PG = P_d - P_r \dots\dots\dots (1)$$

Trade gap as the difference between the net exports of developing and developed countries, on the other hand, can be defined as:

$$TG = (E_d - M_d) - (E_r - M_r) = (P_{ed} \cdot Q_{ed} - P_{md} \cdot q_{md} \cdot n_d) - (P_{er} \cdot Q_{er} - P_{mr} \cdot q_{mr} \cdot n_r) \dots\dots\dots (2),$$

where E_i and M_i stand for export and import in value terms, P_{ei} and P_{mi} stand for prices of exports and imports, Q_{ei} stands for the total quantity of exports, q_{mi} stands for the average quantity of imports and n_i stands for the size of importing population (for $i=d,r$). It should be noted that whereas the production gaps are measured in physical terms, the trade gaps are measured in value terms. Some further clarifications about the data sets are necessary. In case of tea, coffee and cocoa, although the production information are available separately, the data set used does not distinguish the products in connection with the value of trade. Consequently, the trade gap has been estimated with tea, coffee and cocoa taken together. Furthermore, although the production gap is estimated with respect to cotton, the trade gap is related to cotton fibre.

The estimates obtained in respect of the above crops are depicted in Charts 1 through 5 (pages 3a to 3e). Chart 1 presents the situation that obtains in respect of the beverage group - namely, coffee, tea and cocoa. We observe that the production gap remained almost stable in favour of the developing nations over the years under review. However, the same cannot be said about the trade gap. It started increasing in favour of the developing countries since the early seventies, reached a trough during the second half of the seventies, declined during the early eighties to peak again during the the mid-eighties. However, from then onwards the trade gap between the developing and developed nations has started declining, implying a larger participation of the developed countries in international trade in the beverage group of agri-commodities. The situation in respect of the other agri-commodities under review is further bleak with the exception of rubber. As we find in Chart 2, the production gap for cotton has gone against the developing countries with the trade gap showing signs of decline since the late eighties when production gap turned negative. Rubber (Chart 3) follows more or less the beverage pattern with the developing countries still having a better bargaining power than in case of tea, coffee and cocoa. The worst situation is observed in case of tobacco (Chart 4) where in spite of an increasing production gap, the trade gap is observed to have turned negative since the beginning of the last decade and the gap is widening still. In respect of oilseeds, the developing countries never experienced a positive trade gap, even though they have been always enjoying a positive production gap over the period under review (Chart 5).

Although this dataset does not allow for finer sub-division within agri-products categories under question, a further probe in global trade statistics coupled with a closer examination into the current dataset reveals the following disturbing features of agri-business trade from developing countries point of view:

- The spectrum of export items are much wider for the developed nations than its counterpart for the developing countries as the former are engaged in elaborate agro-processing activities, while the latter are generally not.
- In some cases, the developed countries produce hardly or very little of the primary good, but have a substantial share of world trade through re-exports of imports.

The present exercise also brings out the combinations of domestic factors, which can contribute towards a declining or even a negative trade gap for the developing countries: (1) decline in P_{ed} , (2) decline in Q_{ed} , and (3) increase in P_{md} , Q_{md} and n_d , even if one ignores the factors operating from the developed country side. Can strong farmer economic organisations contain the three above-stated factors? In an era of liberalisation and globalisation with freer exports and imports, this is precisely where the role and responsibility of a farmer-owned cooperative organisation need to be critically examined.

A strong cooperative organisation of farmer-producers can prevent decline in quantity and/or price of exports through undertaking agro-processing and thus increasing the shelf life of agri-commodity materials, better logistics management beginning from harvesting to marketing of the product, better linkages and awareness building with the producers, quality improvement and brand development, and thus better marketing in the interest of the producers.

Traditionally, people have emphasised the role of only producer cooperatives. A strong consumer cooperative of farmers can play an equally important role in preventing rise in the price of importables, increase in the average quantum of imports and swelling in the number of importers through educating the farmer-consumers about possible import substitution in favor of domestically manufactured products and thus building up a strong consumer movement, and stopping various unfair practices of government, private traders and even of powerful MNCs through suitable distribution channel management.

It is against this background the present paper proposes to examine the inherent strengths and weaknesses of cooperatives in general and of Indian cooperative movement in particular. It is also against this same background this paper cites in Section 5 the examples of two well-known farmer organisations from Sweden to enable the reader to appreciate the possibilities around the concept of cooperation and also identify the missing factors in the Indian context.

Section 3. Relevance of Cooperatives -Their Competitive Strengths & Weaknesses

To find out the relevance of cooperatives in a liberalised economic scenario, one needs to examine whether cooperatives have any transaction cost advantages relative to investor-owned firms (i.e., IOFs) in generating value, which can give the former a competitive edge over the latter. The competitive power of an enterprise depends on the soundness of the contractual-institutional design through which a firm has to strike alliances with its various stakeholders. Transaction costs arise in information gathering, in negotiation and in

CHART-1

PRODUCTION AND TRADE GAPS BETWEEN DEVELOPING AND DEVELOPED COUNTRIES IN RESPECT OF COFFEE, TEA AND COCOA (1961-1992)

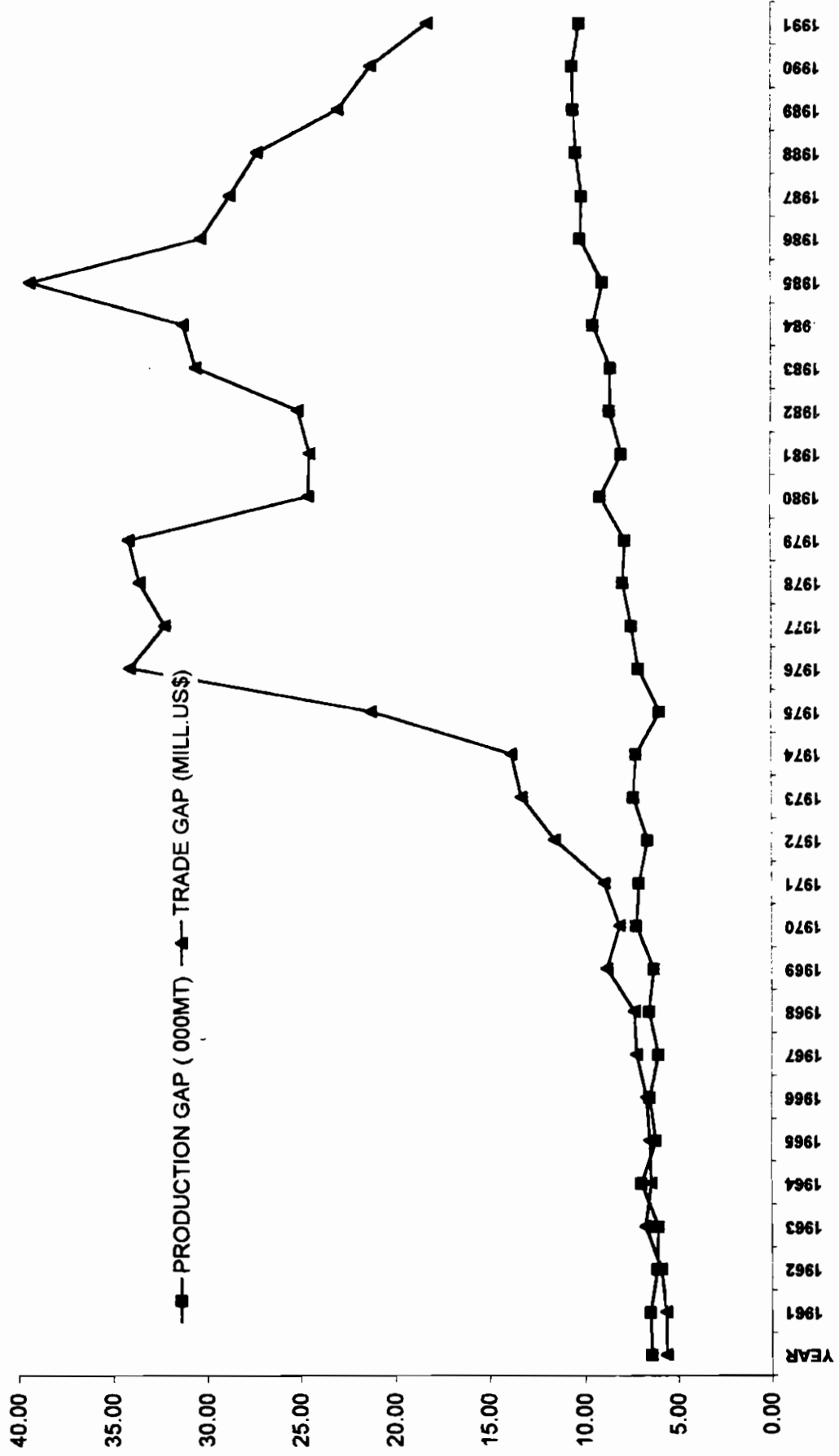


CHART-2
**PRODUCTION AND TRADE GAPS BETWEEN DEVELOPING AND DEVELOPED COUNTRIES IN
 RESPECT OF COTTON
 (1961-92)**

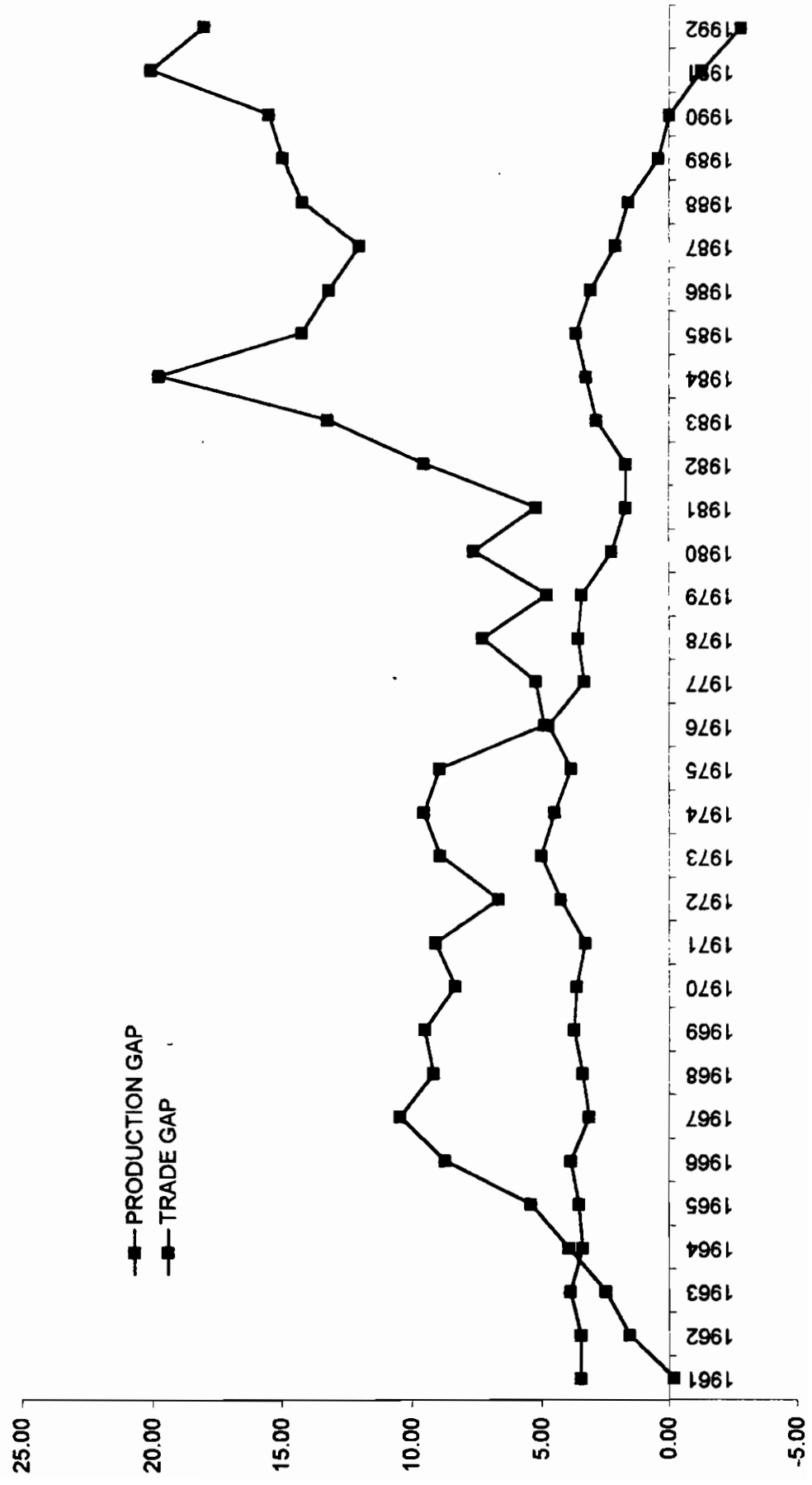


CHART-3

PRODUCTION AND TRADE GAPS BETWEEN DEVELOPING AND DEVELOPED COUNTRIES IN RESPECT OF RUBBER (1961-92)

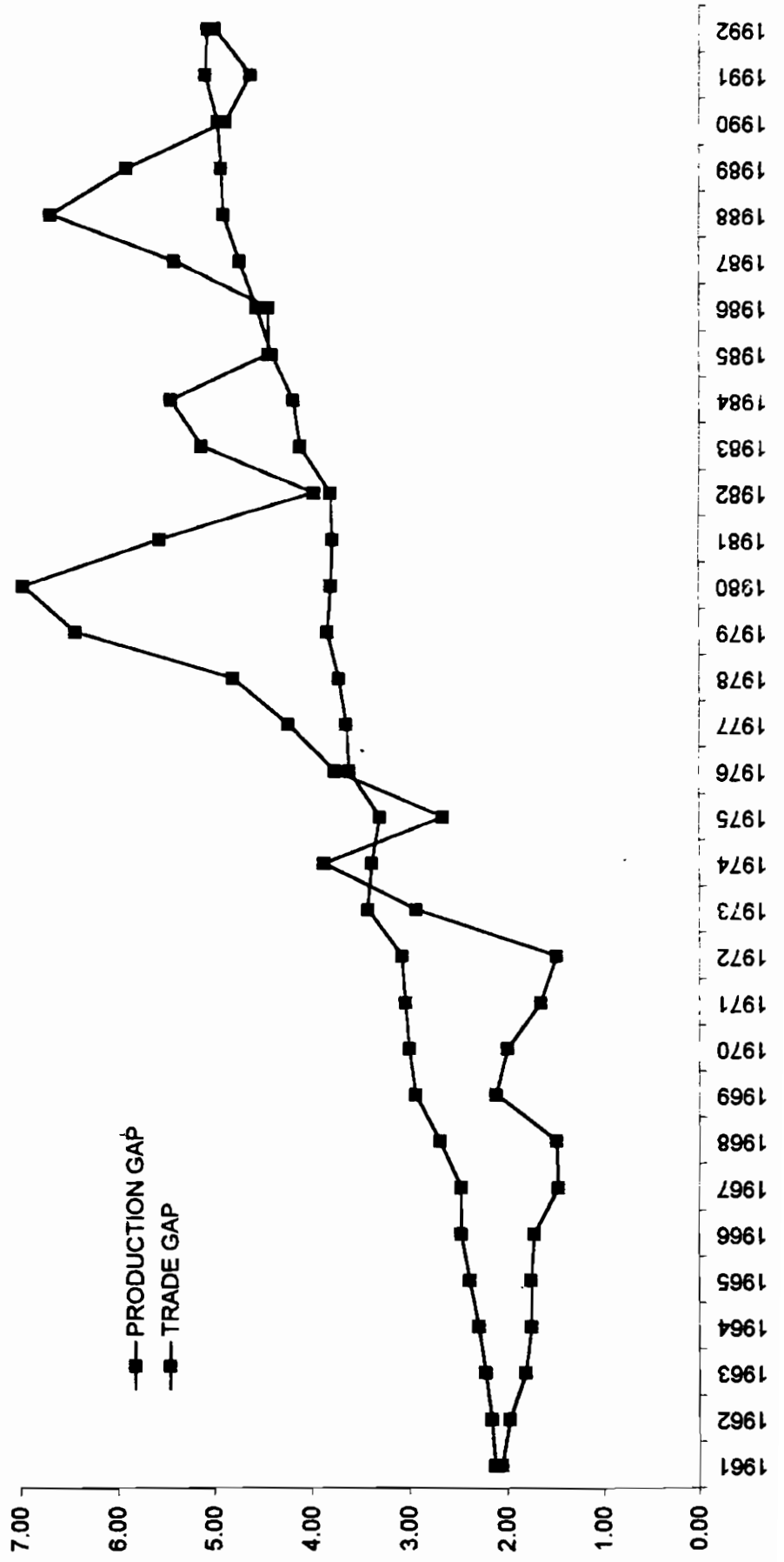


CHART-4
PRODUCTION AND TRADE GAPS BETWEEN DEVELOPING AND DEVELOPED COUNTRIES IN
RESPECT OF TOBACCO (1961-1992)

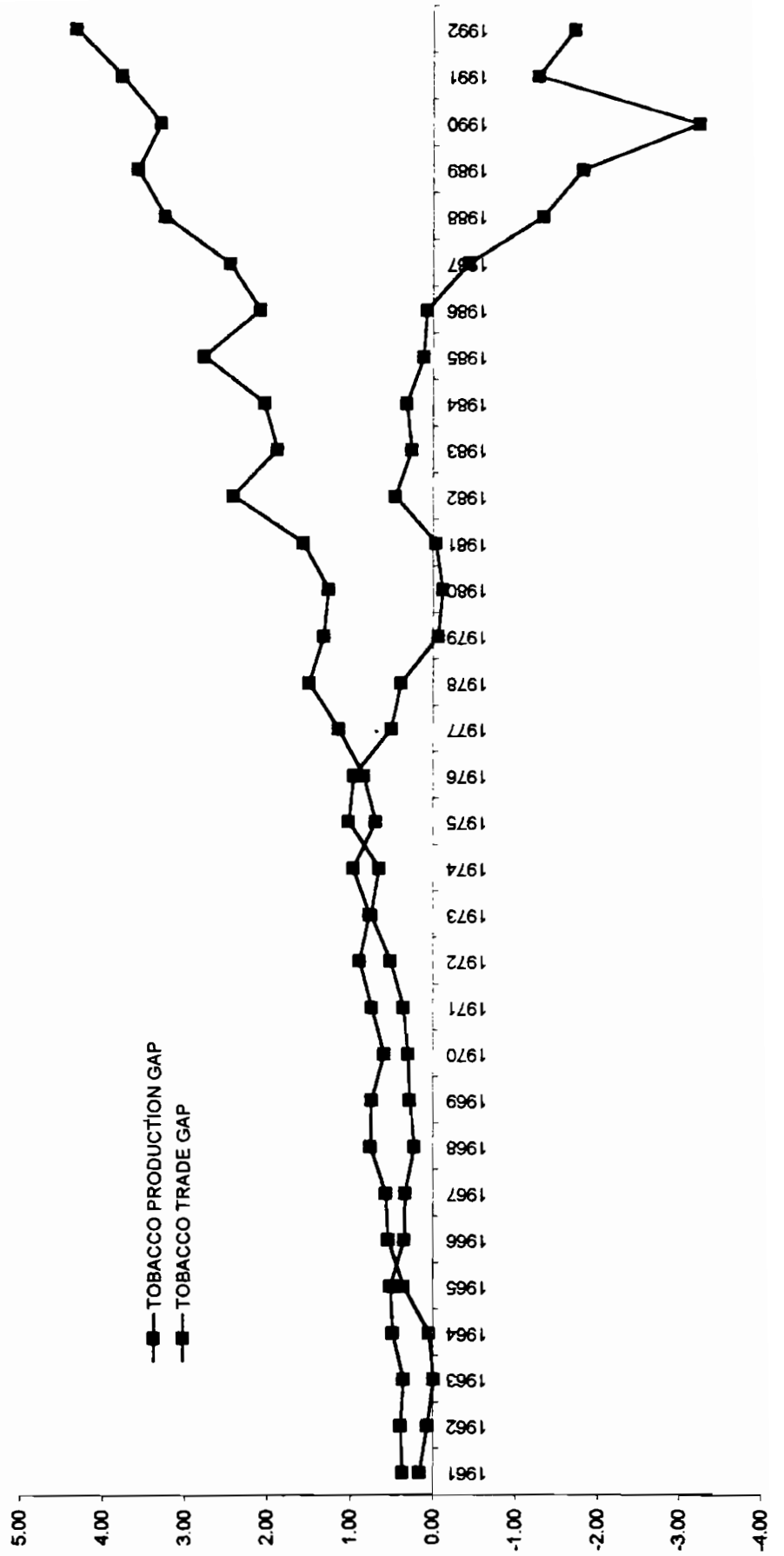
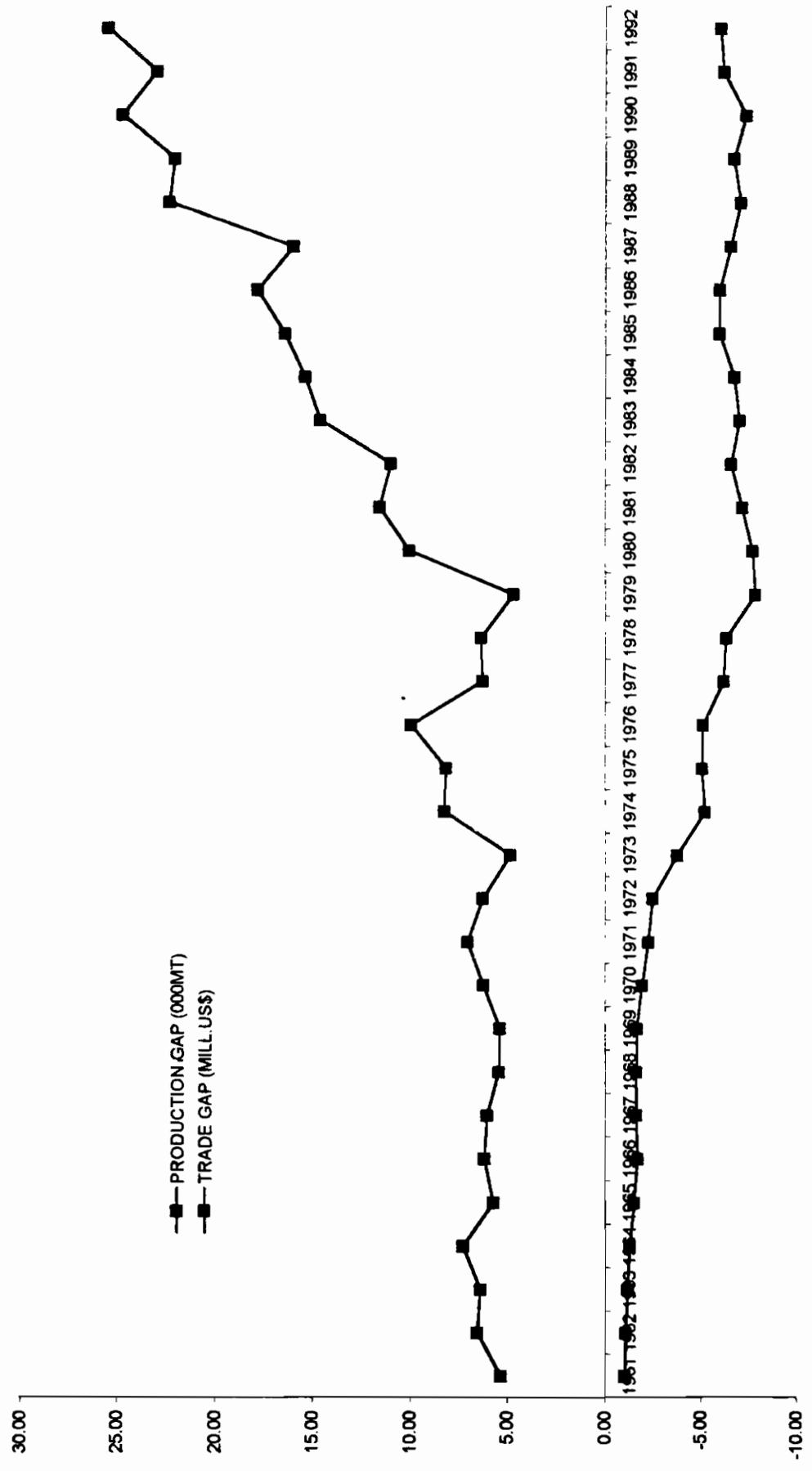


CHART-5
PRODUCTION AND TRADE GAPS IN RESPECT OF OILSEEDS BETWEEN DEVELOPING AND DEVELOPED COUNTRIES (1961-1992)



enforcement of contracts in the exchange process, the moment one starts deviating from the idealized neoclassical world of a perfect set of complete markets. The purpose of transaction cost analysis is to construct organizations, that is, governance structures, which can harmonize relations across parties which are involved in the exchange process. The three major ingredients of transaction cost economics are: (1) bounded rationality, (2) opportunism and (3) asset-specificity. Bounded rationality means human behavior is intendedly rational, but only limitedly so. Human agents are also subject to opportunistic, that is, 'self-seeking' behavior, the incidence of which tends to increase with greater uncertainty (whether exogenous or endogenous). Moreover, the parties engaged in trade and contract are required to make non-trivial investments in transaction-specific assets, which involves a set up cost and which often locks them in a bilateral trading relation with one another.

A cooperative organization has the potential to economise on transaction cost on all the three counts. As Staatz(1984) has shown, even if individuals have perfect information, the costs of gathering, storing and processing information and then negotiating after evaluation an agreement across n-persons tend to increase in proportion to a number raised to the nth power; the costs become even higher as people do not have perfect information, cannot store a lot of data at the same time, cannot properly evaluate the various outcomes and cannot choose the best outcome. In this situation, a cooperative organization can perform better than its rivals, especially when the cooperative members are likely to meet each other in repeated games and are also bound by a common set of values.

A suitably integrated cooperative enterprise, by virtue of its continuing relationship with the members and pooling of member resources, is also capable of hedging against the uncertainties of autonomous market forms of contracting and the associated problem of opportunistic behavior on the part of unknown and external trading partners. Thus a genuine cooperative organization owned, controlled and managed by farmer-producers is expected to enjoy by design an unique transaction cost advantage as compared to a private enterprise. Whereas all factor supplies other than the investors are in vendor relationship vis-a-vis a private firm, where a lot of transaction costs are incurred by private enterprises in designing and enforcing suitable contracts for the factor-suppliers, a cooperative enterprise can avoid a major chunk of the implied agency costs by eliminating possible alienation across membership, control and management through member-participation. A producers' cooperative can also provide a useful forum for resolving cross-farmer conflicts.

A cooperative organisation can help overcome the asset-specificity problem of the rural population in the following manner. As many assets and skills are specific to agriculture having hardly any alternative applications, both the producers and consumers within the agricultural sector suffer from asset-specificity problem. This hinders investment in such assets - both material and non-material. Membership in a producer and/or consumer cooperative, by ensuring long-term commitment on the part of the relevant parties, can thus overcome the potential hazards and hence substantially reduce the implied transaction costs.

In spite of the above-stated assertions, a comparison of property rights in a cooperative vis-a-vis an IOF by Porter and Scully (1987) suggests significant inefficiency in cooperatives arising from (1) a horizon problem, (2) a non-transferability problem, and (3) a control problem. These problems need further elaboration at this stage, as remedial steps are called for if cooperatives are to sustain in a competitive framework.

When an owner's claim on the net cash flow from an asset is less than the productive life of the asset, the return to the owner tends to be lower than the true return from the asset. This gives rise to a horizon problem and results in underinvestment in cooperative assets. This problem is even more acute with respect to intangible assets like brand loyalty and distribution system, where cooperatives will typically underinvest. As pointed out by Porter and Scully (1987), claims on the firm's shares can be transferred only through a system of revolving finance (demanding 100% of the outstanding stock to be purchased in each period in order to equate ownership with patronage and thus having no loss of return - something which is next to impossible to achieve), claims arising from productivity enhancing investments cannot be capitalised and transferred, and claims on intangible assets cannot be transferred at all. However, to the extent cooperative processing facilities are advantageous to the producer, their value can be capitalised in the form of higher resale price of the farm. Again, open membership and even sharing the benefits of increased farm values with the non-member producers puts a constraint on this adjustment mechanism. It is not surprising therefore that modern agri-business cooperatives are asking for proportionality between investment shares and patronage, besides putting suitable restrictions on open membership and non-member participation of benefits.

A cooperative firm with non-transferable assets encounter two problems. First, it faces what is referred to as "Portfolio Problem" - as claims cannot be bought and sold, the members' ability to diversify or concentrate asset portfolio to reflect their preferences for risk diversification tends to be hindered. Second, as claims cannot be concentrated, costly actions necessary to monitor employees to increase net cash flows are less likely to be

undertaken. Hence fewer resources are generally dedicated to the entrepreneurial functions of innovation and organisation, and to monitoring and enforcement of contracts. However, an informal shares market, as prevalent in South Gujarat and Maharashtra sugar cooperatives, may provide a partial solution to the problem.

The control problem arising from principal-agent relationship between cooperative owners and employees is believed to be more severe in cooperatives than in corporations. Since there is no external information available to the principals through the shares market to evaluate the performance of the manager-agents, cooperatives have to rely exclusively on internal monitoring, unless competition can be introduced through multi-plant performance appraisal. Inequality between patronage benefits and shares also expands the principal-agent problem into an agent-multiple principals problem, demanding spending of costly resources to get consensus opinion among the members.

These structural deficiencies coupled with the cooperative legal framework, according to Porter and Scully, prevents production frontier-efficient behavior in cooperatives. The empirical results reported by them indicate that the average cooperative fluid-milk-processing firm is only 75.5% as efficient as its proprietary for-profit firm, and that such inefficient behavior survives largely through largesse of the taxpayers. However, they have qualified their conclusion because of potential curtailment of monopsony power of private processors by cooperative processing units, as indicated by the presence of scale economies. In this situation, presence of a few inefficient cooperatives may promote more efficient behavior of many proprietary firms. Moreover, to the extent the cooperatives provide various services to their members unlike proprietary firms and below-market prices, the costs of cooperatives may be overstated and their contribution to value-addition may be understated.

On the issue of relative efficiency of cooperatives, there is however hardly any strong evidence one way or the other in spite of the Porter and Scully results as reported above, although the general impression is that cooperatives are inefficient as compared to IOFs. The general impression is because while cooperatives maximize service to the members subject to a profit constraint, the IOFs maximize rate of return to equity at a given risk level, and this difference in objectives almost invariably leads to a lower rate of return to equity in cooperatives. This result per se is however not bad for the cooperatives so long as the members can still enjoy higher prices for their products, lower prices for the inputs and better marketing channels as compared to what they would have confronted otherwise. Besides these differences in objectives leading to differences in return on equity, there are two major problems in comparison: first, lack of data from comparable units within the same sector, and second, absence of market prices for many of the services provided by cooperatives to their members. In spite of these difficulties, it is worth noting in this context one comparative ratio analysis by Gentzoglani (1997) of comparable cooperative and IOF units from Canada. Based on 1986-1991 data he has calculated and tested the differences in liquidity ratios, leverage ratios and profitability ratios for the two types of units against the normally expected results (Table 1). While there is definitely a lot of room for further researches in other sectors and in other countries, Gentzoglani's study demonstrates that "cooperatives' and IOFs' performance indices such as profitability and technological abreast, do not differ significantly, while others such as liquidity and leverage, there is statistical difference" (Ibid, p.178). Thus Gentzoglani's results do not display any burden of traditional cooperative principles in achieving comparable productive efficiency by the cooperatives. The conclusion he has arrived at is worth-noting in this context: "...the use of equity capital and other forms of market instruments have provided cooperatives with a competitive advantage permitting them to show year-end performance not different than the one realized by the IOFs" (Ibid, p.180).

In view of the global trend in agri-business a question is being frequently raised now-a-days - more so in the developed countries - whether the traditional form of a user-owned, user-controlled and user-benefited cooperative with five historical reasons for their existence - namely, countervailing power, access to capital markets on favorable terms, scale economies, risk management and income improvement - are still the most effective in achieving the member objectives in an increasingly industrialised and globalised market place.

In a recent article van Dijk (1997) argues that the historical five reasons are to be reinterpreted and recast in this changed context. Since it is still not possible for individual farmers to influence the market behavior of industrial trade partners in the market chain even after liberalisation of government trade policies, the historical first reason, that is, creation of countervailing power, has obtained a new content, whereby cooperation is needed to create a firm which can act as an interface between the highly sophisticated global market, on the one hand, and the primary farms seeking sustainable methods of production within the rural settings, on the other.

Regarding the second reason of gaining access to capital markets, the cooperatives are still in need of permanent risk-bearing capital first from their members, and then also from non-member sources. But as cooperatives typically do not want to give away their control, they seem to have a preference for other capital

markets rather than the regular stock exchanges. In the changed scenario with intensive use of information technology, cooperatives can provide banking alongside other services through network so as to allow the farm economy to keep pace with the fast moving technologies. Moreover, they need newer instruments of gaining access to the capital market.

Table 1: Comparative Economic & Financial Performance of Dairy Units

Ratios		Group means (1986-1991)		Level of Significance (5%)	Expected Relation
		co-operatives	IOFs		
Liquidity Ratios:					
R1: Current ratio	= V1/V2	1.016	1.227	Y	Coop < IOF
R2: Quick or acid ratio	= (V1-V3)/V2	.893	1.117	Y	Coop < IOF
R3: Working capital to current assets ratio	= (V1-V2)/V1	.277	.128	Y	Coop < IOF
R4: Cash ratio	= V4/V2	.180	.395	Y	Coop < IOF
Leverage Ratios:					
R5: Undepreciated fixed assets to total capital	= V5/V6	.617	.645	N	Coop < IOF
R6: Debt ratio	= V7/V6	.946	.659	Y	Coop > IOF
R7: Debt to equity ratio	= V7/V8	1.118	1.555	Y	Coop > IOF
Profitability Ratios:					
R8: Return on equity after tax	= V9/V8	.089	.071	N	Coop < IOF
R9: Return on total capital before interest & tax	= V10/V6	.081	.081	N	Coop < IOF
R10: Return on total capital after tax	= V9/V6	.063	.050	N	Coop < IOF

Note: V1 = Current assets; V2 = Current liabilities; V3 = inventories; V4 = Cash; V5 = Undepreciated fixed assets; V6 = Total capital employed; V7 = Total debt; V8 = Equity; V9 = Net profit after taxes; V10 = Net profit before interest and taxes.

Source: Gentzoglani (1997)

With opening up of competitive markets, new requirements like diversification and variety at the consumer level seem to have been added to the historical third reason of achieving economies of scale. The huge costs and risks of biotechnology, for example, seem to have highlighted the need for large scale operation and purposeful strategic alliances. This means cooperatives must be prepared to undergo the necessary reengineering in their organisational format in the interest of expansion - even through striking suitable broader based alliances amongst themselves and with private/government companies.

The historical fourth reason of risk management is also undergoing fast changes with forward integration. While the profit margins are higher with more value addition at customer markets, so too are the risks. This changing risk profile of cooperatives has stimulated new forms of ownership and special company structures with subsidiary companies and holding companies. Bager(1997) has applied the neo-institutional organisation theory to explain why European agricultural cooperatives are increasingly getting converted into hybrid organisations and limited companies. Harte(1997) has reported that due to diminished need for vertical ownership in the Irish agricultural sector, limitations of the cooperative organisational form and a general shift of the economy towards the market mechanism, some leading Irish cooperatives are finding it as an efficiency enhancing step to transform themselves into public companies with farmers' cooperatives as controlling

shareholders. In North America, a set of New Generation Cooperatives (NGCs) have come into being, which are investor-driven and focussing on value-added activities.

The fifth reason - namely, to improve farmer income through suitable handling of situations of oversupply, has now-a-days taken an altogether different road, as conditions of oversupply have become less likely with farmers being previously contracted and markets probably functioning more efficiently than in the past. The newly emerging cooperatives seem to be following an investor-driven strategy, where open membership is no longer the normal rule. With considerably greater product orientation, these new cooperatives seem to have resolved the cooperative property rights issue by putting restrictions on open membership through elaborate asset appreciation mechanisms, delivery right mechanisms, proportional patronage distribution, base equity capital plans etc.

While evaluating the performance of Swedish consumer and producer cooperatives, which are among that country's ten largest firms in terms of employment and sales, Pestoff (1991) has highlighted the need for applying the twin concepts of efficiency and effectivity towards a complex organisation like a cooperative. In his view, a number of contradictions need to be carefully resolved if an organisation while growing rich, strong and influential also wants to remain subject to the democratic control of its members. The issues raised by Pestoff deserve special attention while examining the future of Indian agri-business cooperatives. He has specifically warned against emergence of the following extreme possibilities in cooperatives:

".. a cooperative enterprise concerned only with the efficient provision of goods and services to its members-cum-clients becomes very much like an ordinary business firm".

"A cooperative movement which only formulates social or political goals and seeks to gain influence by exerting pressure on public authorities, without encouraging participation by prospective beneficiaries or providing services to members, is close to being a social movement".

".. a cooperative which encourages very high membership participation and insists upon consensus on all goals at the expense of providing goods and services efficiently and inexpensively, risks becoming a mutual admiration club."

".. a cooperative which thinks only of its employees' welfare will be transformed into a quasi-trade union." (Ibid, p.166)

According to Pestoff(1991), as cooperatives are subject to the simultaneous constraints due to their unique position at the cross-roads between members, markets, authorities and employees, they need a special efficiency/effectivity concept which must capture economic, democratic, political, human resource and ideological dimensions.

The notion of efficient competition in the market place is nothing unique for the cooperatives - all firms are subject to the same forces in a market framework, irrespective of their legal status, ownership and business concept. However, this is not the sole criterion for cooperative firms, which aspire to combine more than one goal or to play with several strategically important environments. Members constitute the second strategically important resourceful environment for cooperatives. A cooperative must convince its producer-members or consumer-members that as members of an organisation they belong to a 'club' or a 'family' in order to overcome the anonymous and temporary nature of market relations. As cooperatives are in a position to undertake transactions in the spirit of a 'friend' or a 'family' in the long-term interests of the members and even of the society at large, cooperatives are capable of stretching themselves so as to encompass all the three F-connexions (namely - 'Firm', 'Friend' & 'Family') as spelt out by Ben-Porath(1980). As membership implies both privileges and responsibilities which operate through democratic structures and channels of influence, cooperatives need a concept and measure of membership influence and participation to evaluate cooperative democratic effectivity. The political dimension of cooperative effectivity is described as follows. As cooperatives are capable of overcoming the purely temporary and anonymous nature of relations between buyers and sellers as observed in private firms, they are the only type of firms which are also capable of functioning as interest organisations and spokesmen for their members. This means the cooperatives may have to occasionally sacrifice the immediate interests of their members in order to serve the interests of all consumers and farmers and thus influence the development of public policy. Pursuit of general farmer or consumer interest may thus occasionally put the cooperatives and their members at a comparative and competitive disadvantage. On the human resource dimension, cooperatives face problems similar to their private competitors. The special character of cooperatives is that their personnel are not merely employees, but entrepreneurs engaged in fulfilling the cooperatives' goals. Hence cooperatives need special efficiency in the employment of their personnel. The information and education policy of cooperatives - which can be termed as ideological effectivity - constitutes the fifth dimension of cooperative efficiency and effectivity. In order to

systematically develop the rudimentary perceptions and intuitions of members, officers and employees and thus to convert them into dedicated members, officers and employees, the cooperatives must be committed to educate their members, officers, employees and even the general public in the principles and techniques of cooperation. An active education and information policy thus constitutes a distinctive feature of cooperatives, which sets them apart from private firms and public enterprises.

Pestoff has cited several studies to indicate member passivity in terms of participation and disloyalty in terms of economic exchange relations with the cooperatives in Swedish cooperatives, which enjoy virtual organisational monopoly in the absence of viable alternative cooperative movement. In the absence of the options of 'exit' or 'voice', which tends to swell the number of passive and disloyal members in cooperatives, Pestoff forcefully argues for development and application of a multifaceted efficiency concept as elaborated above if cooperatives are to survive and flourish in the current economic environment.

Section 4. Relevance & Global Competitiveness of Indian Agri-Business Cooperatives

The very existence and successful continuation of several outstanding cooperative success stories in spite of a generally dismal performance, not only in commodities like milk and sugar and in states like Gujarat and Maharashtra, but also in other commodities and other states, is suggestive of the fact that the subject of cooperative is not a lost case in this country. Rather it appears that the subject of cooperation has not been given a fair trial in this country (see, Datta and Kapoor, 1996 for an elaboration of this point). It has been argued by Datta and Singh (1997) that such successful examples are seen because exceptional and outstanding leadership has overcome the overall constraints through (a) careful extraction of transaction cost advantages of favourable commodity characteristics, (b) strong enterprise focus, © maintenance of autonomy via self-financing, suitable advocacy activities etc., (d) creating functionally sound higher-tier bodies, (e) having own member education programmes and (f) suitable redefinition and/or reinterpretation of cooperative principles in practice—for example, imposition of suitable restrictions on open membership and evolution of a patronage-cohesive governance structure. It is therefore argued that had the overall policy and context factors been more favourable, the frequency and extent of success in cooperative form of business would have been much larger than what we observe today.

Given this overall background, Datta and Singh(1997) have argued that the relevance of cooperative and cooperative-like organisations in India seems to be flowing from several considerations, as listed below:

- First, producer cooperatives can safeguard the vast number of small and marginal farmers from the vagaries of the existing imperfections in the input, production, agro-processing and marketing sub-systems in production under one of the conditions: (i) when production is undertaken by a large number of scattered and small farm holdings, each having only small quantity of marketable surplus, a producers' cooperative can procure supplies at lower transaction cost through suitable backward linkages (for example, procurement through pooling) and can make such a unit viable; (ii) when the market for the crop under consideration is highly imperfect (sometimes coupled with the fact that the farmers have limited choice of crops), a cooperative can insulate the farmers from the uncertainties and imperfections of the market; (iii) when non-availability of inputs in adequate quantity, of standard quality and at reasonable price is a problem, a cooperative through suitable backward linkages can insulate the farmers from the above-stated types of input risk; (iv) when there is poor interface of farmers with technology and extension, resulting in low yield and/or high variability in output, a producers' cooperative can insulate the farmers from production risks by providing these services to the member-farmers; (v) when the following features are observed: (a) high perishability of raw materials calling for instant agro-processing, (b) high seasonality and thus need for storage of the raw materials for prolonged consumption and/or agro-processing activity, and © bulky raw materials highlighting the need for reducing the volume and/or weight through agro-processing, a cooperative with storage and agro-processing facilities can strengthen the bargaining position of the farmers; and (vi) when it is difficult to assess the quality of raw materials on the spot, a cooperative through pooling can offer a credible contract to the farmers for supplying their raw materials and thus save the farmers from exploitation by unscrupulous traders.
- Second, by their sheer presence and efficient functioning, a cooperative organization can not only control unfair treatment of the producers by private enterprises but also set up quality standards and norms of behaviour in the market place, the functioning of AMUL providing probably the best possible example in this regard.
- Third, when the country is attempting to strengthen the basis of a civil society by enforcing democracy at the grass root level through the Panchayati Raj institutions (73rd and 74th Amendment of the Constitution) and

also by highlighting the role of infrastructure and rural development, empowerment of women and weaker communities etc., it is believed that all these lofty ideals and targets can be achieved only through planning for economic democracy at village level cooperatives, the successful sugar and milk cooperatives being examples of how to create a synergy between cooperatives and Panchayats at the grassroot level and achieve the goal of a truly decentralised civil society.

- Fourth, cooperatives can bring people below or near the poverty line back to the mainstream market structure by initially organising them into self-help groups (SHGs) and then generating gainful employment for them, as the Bangladesh Grameen Bank movement and several SHGs in certain pockets of this country have demonstrated (for a critical review of Grameen Bank, see Khandkaer, Khalily and Khan, 1995).
- Finally, rural consumer cooperatives are capable of providing a competitive challenge to the rapidly growing economic power of the foreign multinationals, their allies as well as their products in the vast Indian rural consumer markets, and thus helping the rural people to capture a meaningful share of the value-addition activities on the marketed products either in terms of income or in terms of employment. and also preventing the countryside from progressively becoming a perpetual net importer to the outside world - Warana Bazar located within Warananagar Cooperative Complex near Kolhapur and Raigad Bazar at Alibag in the district of Raigad both in Maharashtra being two outstanding cases of success in this regard.

In spite of the above-stated assertions about the relevance of Indian agri-business cooperatives, it is important at this stage to examine the global competitiveness of Indian agri-business sector in general and of agri-business cooperatives in particular, as nobody can wish away the entry of MNCs or their products under progressively liberalised trade regimes. A recent finding that Indian agriculture is far more competitive than Indian industry in spite of the bias of government policy against agriculture has important connotations for Indian cooperatives, as most of these cooperatives are typically in the agricultural sector and many of them are engaged in primary processing activities. A pioneering study by Gulati (1994) for example has confirmed that India has strong comparative advantages in the export of rice, cotton, fresh fruits (e.g., banana, grapes, sapota, lychee, mango), fresh vegetables (e.g., onion, tomato, potato) and processed vegetables (e.g., mushroom).

Though as per Gulati (1994) India does not have competitive advantage in sugar and edible oilseeds, it does not mean that India should discontinue production of and the Indian cooperatives should withdraw from production and processing of these commodities. Similarly, even though India is fairly competitive in rice as per the above-stated findings, it is not true that just anybody can export rice and reap the benefits. One needs to remember that India being a large country, its decision to export or import a commodity may turn the international prices sharply against it and make the above-stated conclusions invalid. What is needed in such situations is to make a more refined domestic resource cost analysis in a PAM (Policy Analysis Matrix) structure allowing for agro-processing of byproducts, and to build up adequate cushions against unfavourable changes in policy parameters.

This has been done for a fairly good number of agri-commodities in India - namely, ginned and pressed cotton, alphonso mango, groundnut oil and oilcake, shrimp (produced under semi-intensive and modified extensive farming conditions in Kerala and Andhra Pradesh), sugar (for the country as a whole as well as for major sugar-producing states) and both Basmati and non-Basmati rice (also under conditions of limited byproduct use), under importable and/or exportable hypotheses depending on the nature of the commodity and using data for 1994-95/1995-96 (Table 2). While NPC, EPC and ESC - the traditional measures of global competitiveness compares the domestic price of the product with its international price for a private importer or a private exporter (of course, after suitable adjustments for tax/subsidy in tradeable inputs and both tradeable and non-tradeable inputs, respectively, in the last two measures), DRCR is by far the most comprehensive measure which not only takes a social viewpoint by considering economic prices for both tradeable and non-tradeable items which enter either on the input or on the output side, but also builds into it the various factors at the international level, at the national level, at the industry level and even at the enterprise level, which influence this global competitiveness measure. From Table 2 it is clearly seen that the value of DRCR measuring the net cost of non-tradeable domestic resources to produce one unit of foreign exchange, which generally lies between zero and unity, validates India's import and export competitiveness in all the selected agri-products except PR-106 variety of rice. In case of ginned and pressed cotton, the measure is negative signifying that the net cost of domestic non-tradeable resources to produce one unit of foreign exchange through tradeable production is negative as the economic price of non-tradeable inputs far exceeds the same for non-tradeable output - namely, cotton seeds.

The same DRCR exercise is done again for a number of well-known private sector (namely, Simbhaoli and Balarampur) as well as cooperative sector units (while Warana, Sanjivani and Gandevi are looked upon as strong cooperative units, Palaj is looked upon as a weak one, which is included to indicate the lack of

competitiveness of such weak units in the sugar sector) in sugar, which is believed to be a highly controversial product as far as global competitiveness is concerned (Table 3). However, as the last rows of Table 2 and Table

Table 2: Indices of International Competitiveness of Some Agricultural Commodities in India

	NPC		EPC		ESC		DRCR	
	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp
Cotton	0.4090	0.9000	0.4029	0.9052	0.4046	0.9091	-0.0636	-0.1429
Alphanso Mango	0.2702	0.8333	0.2650	0.8369	0.2668	0.8423	0.0998	0.3150
Groundnut oil and oilcake	0.8750	1.2353	0.8757	1.2965	0.8904	1.3183	0.2544	0.3767
Shrimp								
1. Semi-Intensive in Kerala	0.4811	0.5692	0.3055	0.3853	0.3004	0.3789	0.3819	0.4816
2. Modified Extensive in Kerala	0.5203	0.6084	0.4100	0.4982	0.4050	0.4921	0.3141	0.3817
3. Modified Extensive in Andhra Pradesh	0.5392	0.5879	0.4483	0.4987	0.4015	0.4466	0.2199	0.2446
Sugar								
1. India	0.985	1.283	0.984	1.344	0.994	1.358	0.590	0.807
2. Andhra Pradesh	0.993	1.297	0.983	1.342	0.986	1.348	0.601	0.821
3. Gujarat	0.964	1.273	0.971	1.356	0.989	1.382	0.495	0.691
4. Karnataka	0.974	1.254	0.966	1.272	0.967	1.274	0.536	0.706
5. Maharastra	0.983	1.271	0.991	1.344	1.007	1.366	0.455	0.617
6. Tamilnadu	0.985	1.279	0.984	1.324	0.991	1.334	0.569	0.765
7. Uttar Pradesh	0.995	1.315	0.982	1.365	0.988	1.373	0.695	0.966
Rice								
1. Basmati (without by-product use)	-	0.77	-	0.74	-	0.81	-	0.91
2. Non-Basmati (without by-product use)								
a) 71/72 UP	-	0.79	-	0.77	-	0.95	-	0.94
b) Haryana long grain	-	0.78	-	0.76	-	0.91	-	0.81
c) PR-106	-	0.78	-	0.75	-	0.99	-	1.25
3. Non-Basmati (with by product use)	-	0.82	-	0.81	-	0.85	-	0.54

Note: Imp & Exp stand for results under importable and exportable hypotheses, respectively.

4 demonstrate, India can considerably augment her competitiveness position in rice and sugar, if a favorable policy framework can induce secondary processing through byproduct use under an integrated organisational structure. This means, other things remaining equal, integrated cooperative units with natural advantages in backward linkages with the farmer-producers, have obvious comparative advantages vis-a-vis isolated private agro-processing units. Obviously, the competitive strength of an integrated cooperative would be greater, the more it can profitably apply cheap and non-tradeable domestic resources including unskilled labor, land etc. to the production and processing of a crop to further convert it into internationally tradeable products. In fact, an

integrated cooperative enterprise capable of procuring steady flow of raw materials from the member-producers, on the one hand, and of agro-processing and marketing the product as well as byproducts through suitable forward linkages (e.g., through suitable strategic alliances), on the other, does have the maximum transaction cost advantages in exports, because unlike a private enterprise it need not incur too much of costs on transport, handling, negotiations etc. at arms length transactions.

Following Wallis and North (1986) definition of transaction costs as costs incurred through the market system in acts of coordination of transactions as opposed to the acts of transformation of inputs into output, transaction cost in the sugar industry as distinct from transformation cost has been estimated for the country as well as for the major sugar-producing states in Table 5 using published BICP data for the year of 1995. It is important to point out that transaction cost as percentage of total cost/total output value or transaction cost per ton of sugar produced is consistently lower for the states of Gujarat and Maharashtra, which have exclusively cooperative form of sugar units rather than a mix of cooperative, corporate and government units. Although the estimates are crude and are for only one year, and moreover the analysis does not examine the implications of transaction cost minimization by cooperatives on their long-term viability, this result nevertheless shows in general the potential for transaction cost minimization in the cooperative sugar factories of Gujarat and Maharashtra as compared to their counterparts in the other states, while the former have been paying by far the highest price to the cane-growers without running into any serious financial problem in sustaining the units.

Table 3: Indices of Competitiveness for Selected Sugar Mills

Name	NPC		EPC		ESC		DRCR	
	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp
Simbhaoli	0.848	1.122	0.809	1.174	0.831	1.207	0.661	0.960
Balrampur	0.967	1.282	0.975	1.412	1.007	1.459	0.603	0.873
Warana	0.910	1.191	0.893	1.233	0.903	1.246	0.546	0.754
Sanjivani	0.981	1.284	0.971	1.375	0.983	1.392	0.723	1.024
Gandevi	0.982	1.300	0.961	1.415	0.971	1.430	0.720	1.061
Palaj	0.991	1.312	0.891	1.662	0.909	1.697	2.411	4.498

Note: Imp & Exp stand for results under importable and exportable hypotheses, respectively.

Table 4: Global Competitiveness of Sugar and By-products for Selected Sugar Mills

Units	Simbhaoli		Warana		Sanjivani	
	Importable	Exportable	Importable	Exportable	Importable	Exportable
Sugar	0.661	0.960	0.546	0.754	0.723	1.024
Distillery	0.364	0.576	0.620	1.174	-	-
Paper	-	-	0.483	0.594	-	-
Chemical	-	-	-	-	0.585	0.803
Sugar and distillery	0.655	0.953	0.547	0.757	-	-
Sugar and paper	-	-	0.530	0.710	-	-
Sugar and chemical	-	-	-	-	0.684	0.960
Sugar, distillery and paper	-	-	0.531	0.712	-	-

The reader must be cautioned at this juncture that in spite of the above-stated discussion on the relevance of cooperatives and the potential global competitiveness of Indian agri-business cooperatives, the realization of the inherent transaction cost advantages of the cooperatives is subject to three important qualifications, as spelt out by Datta and Singh (1997):

- There must be enabling legal provisions to allow cooperative enterprises to function as genuinely user-owned, user-controlled and user-managed organizations, so that these can be run on sound commercial lines with professional management.
- As the possibility of factor substitution in favour of traditional factor inputs like land and labour is extremely limited in modern and capital-cum-skill intensive agro-processing activities, cooperatives are likely to face acute shortages of these critical and complementary inputs, especially when the producer-members are not in a position to acquire capability to supply and control such inputs. Hence enabling legal provisions are needed also to allow cooperatives or at least their promotional agencies to raise financial resources from the market at the required scale.
- Since the competitive strength of an enterprise at micro level depends on what business strategies it follows with respect to the suppliers, the buyers, the substitutes, the potential entrants, and the existing competitors in the industry, a cooperative must gather competitive edge through suitable enterprise focus not only in primary value creating activities but also in secondary value creation activities, if necessary through suitable strategic alliances with private and public sector units.

Table 5: Transaction Cost in the Sugar Industry in Major Sugar Producing States (1995)

NAME	India	A.P.	Gujarat	Karnataka	Maharashtra	T.N.	U.P.
TC/Total Cost (%)	4.91	7.99	2.26	3.46	3.67	7.06	5.15
TC1/Total Cost (%)	0.88	0.90	0.74	0.95	0.85	0.83	0.70
TC2/Total Cost (%)	1.24	0.70	0.40	0.88	1.02	1.19	1.50
TC3/Total Cost (%)	2.64	5.80	0.92	1.38	1.72	4.70	2.87
TC4/Total Cost (%)	0.15	0.59	0.21	0.25	0.08	0.34	0.08
TC/Total Output Value (%)	2.93	5.31	1.28	2.08	1.92	4.38	3.85
TC1/Total Output Value (%)	0.52	0.59	0.42	0.57	0.44	0.51	0.52
TC2/Total Output Value (%)	0.74	0.46	0.22	0.53	0.53	0.74	1.12
TC3/Total Output Value (%)	1.58	3.85	0.52	0.83	0.90	2.92	2.15
TC4/Total Output Value (%)	0.09	0.39	0.12	0.15	0.04	0.21	0.06
TC/Ton of sugar (Rs)	395.82	698.22	163.55	286.01	264.23	584.41	513.02
TC1/Ton of sugar (Rs)	70.65	78.26	53.70	78.60	61.03	68.39	69.33
TC2/Ton of sugar (Rs)	99.90	61.08	28.76	72.90	73.32	98.52	149.37
TC3/Ton of sugar (Rs)	213.09	506.96	66.28	113.69	124.04	389.27	286.56
TC4/Ton of sugar (Rs)	12.18	51.93	14.82	20.82	5.84	28.23	7.76

TC=Total Transaction Cost = TC1+TC2+TC3+TC4

TC1=Cost of Management Salaries

TC2=Cost of Factory Overhead

TC3=Cost of Administrative Overhead

TC4=Cost of Sales and Marketing

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Note: Total output value includes values of sugar, molasses, bagasses and immediate downstream products like alcohols and spirits

Section 5. Examples of Farmer-Owned Agri-Business in Sweden

This section proposes to highlight two caselets from Sweden - one on the Federation of Swedish Farmers (LRF) and the other on Arla - with a view to capturing the distinctive features of the cooperative movement in a country known for its long tradition of cooperative forms of business.

Caselet 1: FEDERATION OF SWEDISH FARMERS (LRF)

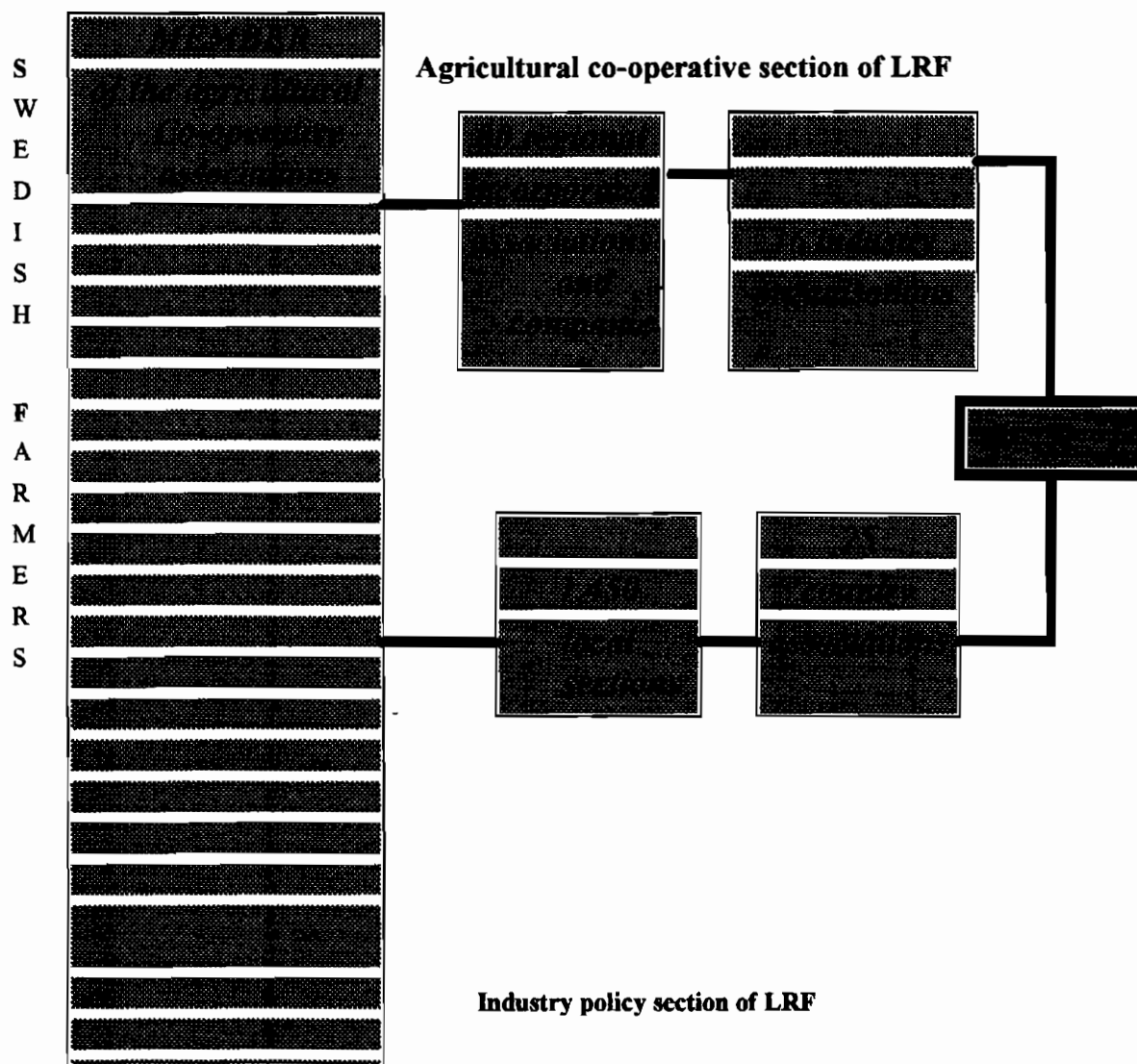
Sweden has a tradition of having a farmer-owned industry: through their incorporated associations and companies, the Swedish farmers are heavily involved in processing and marketing of agricultural products, often sold under well-known brand names. This farmer-owned agricultural industry covers 16 different sectors based on some 80 companies with more than 100 wholly or partly owned subsidiaries located in Sweden and abroad. The unique feature of these farmer-owned companies is that in a number of areas they are far ahead of international standards.

LRF is described as the interest and industry organisation for Swedish farmers, forest owners and the agricultural cooperative movement. LRF's mission is to create conditions for efficient, market-oriented and competitive companies of the farmers, besides promoting and satisfying the farmers' social and cultural interests. As one of LRF's member puts it,

"Although LRF does not have direct power, the organisation influences both the public and politicians. And I believe this is LRF's primary objective..."

"We farmers enjoy considerable public confidence. This is very gratifying. However, I feel we are too much at the mercy of politicians' whims. Competition on equal terms in the EU and reduced dependence on financial assistance would strengthen our agricultural companies" (LRF Annual Report, 1995, p.11)

Chart 6 : The Organisations of the Swedish Farmers



Source: Reproduced from 'Swedish Farmers and Their Companies.'

The specific objectives of LRF are to:

“improve agricultural competitiveness and profitability through an aggressive business policy nation-wide and in the EU and by developing and strengthening agricultural cooperation, create positive opinion in Sweden for the activities and products of Swedish farmers and the Swedish countryside, primarily through the programme entitled ‘Developing the World’s Cleanest Agriculture’, develop the skills and know-how of members and elected representatives, offer members a personal service and act as a forum for fellowship in the countryside, satisfy the demand for effective services in selected areas of expertise through LRF’s own business and insurance operations”. (LRF Annual Report, 1995, p.1)

LRF’s organisational chart (Chart 6) reveals that it has two branches: the industry policy section involves some 126,000 individual members organised in about 1,450 local branches and 25 county associations, while the agricultural cooperative section includes 80 incorporated associations and their subsidiaries in 16 industrial sectors. Individuals who have often membership of several associations, exercise their ownership via democratically controlled local organisations, where each member has one vote. The overall interest and industry organisation’s (LRF’s) activities are coordinated through local branches, municipal-based groups, county associations and the national federation.

The major constituents of LRF are as follows. The Swedish Dairies Association processes milk into various consumer products. The Swedish Farmers’ Sales and Purchase Association processes grain and sells commercial fertiliser, seed, forage, machinery and other supplies to farmers. The Swedish Meat Marketing Association provides the market channel for meat and meat products. The Forest Owners’ Association with a membership of about 87,000 private forest owners negotiates prices and sells timber, besides providing silvicultural and felling services to the members. Table 6 provides an idea of the size of business operations of LRF’s major constituent companies and their associations during 1995, while Table 7 describes the nature and size of service operations of a number of service organisations of LRF and its subsidiaries for the same year. Table 8 performs a financial analysis of LRF for 1994 and 1995.

Table 6: Performance of The Swedish Farmers’ Companies during 1995

	Parent Body	Members
SWEDISH DAIRIES ASSOCIATION		
Turnover, SEK m	295	17,683
Number of employees	148	7,622
Number of members/associations	8	20,363
SWEDISH LIVESTOCK ORGANISATION		
Turnover, SEK m	136	-
Number of employees	84	-
Number of members/ associations	22	-
SWEDISH FARMERS’ MEAT MARKETING ASSOCIATION		
Turnover, SEK m	5,254	10,113
Number of employees	2,350	64,104
Number of members/ associations	5	66,746
SWEDISH ASSOCIATION OF EGG PRODUCTION		
Turnover, SEK m	492	-
Number of employees	204	-
Number of members/ associations	417	-
SWEDISH FARMERS’PURCHASING AND MARKETING ASSOCIATION		
Turnover, SEK m	8,419	15,317

(Table-6 contd..)		
Number of employees	5,151	6,076
Number of members/ associations	13	78,140
SWEDISH SEED AND OIL PLANT GROWERS' ASSOCIATION		
Turnover, SEK m (including settlement value for members)	754	-
Number of employees	3	-
Number of members/ associations	18	-
Number of members	25,079	-
SWEDISH FEDERATION OF POTATO GROWERS		
Turnover, SEK m	6	-
Number of employees	3	-
Number of members/ associations	2,058	78,140
SWEDISH STARCH PRODUCERS ASSOCIATION		
Turnover, SEK m	720	-
Number of employees	375	-
Number of members	1,745	-
SWEDISH DISTILLERY SUPPLIERS		
Turnover, SEK m	107	-
Number of employees	2	-
Number of members	1,085	-
SWEDISH SUGAR BEET GROWERS		
Turnover, SEK m	797	-
Number of employees	1	-
Number of member Associations	5	-
With a total membership	5,500	-
JP CULINARY DEVELOPMENT		
Turnover, SEK m	10	-
Number of employees	19	-
SWEDISH FEDERATION OF MARKET GARDNERS(TR)		
Turnover, SEK m	18	-
Number of employees	20	-
Number of members	2,000	-
SWEDISH FEDERATION OF VEGETABLE GROWERS (GRF)		
Turnover, SEK m	1	-
Number of employees	1	-
Number of members	1,200	-

(Table 6 contd..)		
SWEDISH FEDERATION OF FOREST OWNERS		
Turnover, SEK m	16	9,231
Number of employees	14	4,089
Number of members/ associations	8	86,978
SWEDISH ASSOCIATION OF FUR FARMERS, SPR		
Turnover, SEK m	139	-
Number of employees	28	-
Number of members	390	-

Table 7: Business Activities of LRF Service Companies & Their Subsidiaries

LRFs BUSINESS & INSURANCE OPERATIONS

(The purpose is to manage and develop companies which utilise and promote the interests of members by offering services required by them and/or to contribute to creating goodwill and value added for LRF as an organisation)

Key figures	1994	1995
Turnover, SEK M	1946.9	1942.3
Profit/Loss before appropriations, SEK M	144.2	308.7
No. of employees	3413	3260

JORDBRUKETS PROVKÖK AB, JP (Culinary Innovation)

(With the cooperation of its clients JP provides the inspiration for exciting food experiences by developing food-stuffs, dishes and meals. Domestic science teachers, food consultants, home service advisers, chefs, dieticians and food agronomists work on a consulting basis in four main areas - information, tests, training and development - in both the consumer and commercial market. JP develops and tests recipes and participates in trade fairs, food competitions and exhibitions. The company also has a large recipe bank which includes full meals as well as single dishes which can be appraised in terms of cost and nutrition.)

Key figures	1994	1995
Turnover, SEK M	--	15.6
Profit/Loss before appropriations, SEK M	--	0.0
No. of employees	--	21

LANTBRUKETS AVBYTARTJÄNST AB (Labor Supply Services)

(This company is designed to operate as a nation-wide and market leading operator in substitute worker services and is capable of promptly providing substitute workers for farms in the event of illness or accidents and during scheduled free time and holidays. It also offers other services for agricultural companies and other organisations active in the countryside.)

Key figures	1994	1995
Turnover, SEK M	417.0	398.4

(Table 7 contd..)

Profit/Loss before appropriations, SEK M	-1.3	20.4
No. of employees	1,681	1,465

LANTBRUKARNES TRYGGHETS FÖRSÄKRING FÖRSÄKRINGSÄKTIEBOLAG, LTF (Insurance)

(It offers special insurance policies to farmers and forest holders and provides insurance products which, thanks to their low cost and high effectiveness, add value to LRF membership.)

Key figures	1994	1995
Turnover, SEK M	483.0	376.7
Profit/Loss before appropriations, SEK M	47.4	195.4
No. of employees	12	19

LANTBRUKETS UNDERSÖKNINGSINSTITUT AB, LUI (Market Surveys)

(It creates know-how for the marketing of products, services and concepts in the food industry.)

Key figures	1994	1995
Turnover, SEK M	11.2	17.7
Profit/Loss before appropriations, SEK M	-1.2	-1.9
No. of employee	26	19

LRF JURIDISKA BYRÅN AB (Legal Services)

(It is the foremost specialist in proprietary and property law for LRFs members. It has unique expertise in the legal areas of trespass, user rights, property registration, nature conservation and environmental matters, as well as purchase and contract law.)

Key figures	1994	1995
Turnover, SEK M	25.1	25.7
Profit/Loss before appropriations, SEK M	1.5	1.9
No. of employees	40	38

LRF KONSULT AB

(It focuses on improving the financial conditions for small companies)

Key figures	1994	1995
Turnover, SEK M	536.7	609.1
Profit/Loss before appropriations, SEK M	38.8	36.0
No. of employees	1,198	1,210

LRF MEDIA AB (Publishing)

(In terms of circulation and the advertising volume, LRF Media is the leading publisher of newspapers and magazines for the agricultural industry. It also provides professional and training materials.)

Key figures	1994	1995
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(Table 7 contd..)

Turnover, SEK M	241.2	255.7
Profit/Loss before appropriations, SEK M	11.0	4.0
No. of employees	154	157

LRF REVISION AB (Accounting Services)

(It is the natural choice for small and medium-sized companies, associations and organisations for accounting requirements.)

Key figures	1994	1995
Turnover, SEK M	73.1	76.2
Profit/Loss before appropriations, SEK M	5.8	3.2
No. of employees	115	119

LRF SAMKÖP AB (Supplies)

(Its operations are aimed at reducing the cost of materials and services for association companies. It supplies goods and services in the company's three business areas - offices, industry and transport. Through fax-based contract guide, customers can gain information on all suppliers and on the goods and services available, as well as which suppliers use environmental programmes. Customers can subsequently order the desired materials via their own fax and have access to continually up-dated information.)

Key figures	1994	1995
Turnover, SEK M	10.1	10.4
Profit/Loss before appropriations, SEK M	1.3	2.0
No. of employees	13	12

SKOGS-OCH LANTBRUKSHÄLSAN AB (Health Care)

(It works actively to prevent occupational injury and accidents and improves the health, working environment and life situation of affiliated customers.)

Key figures	1994	1995
Turnover, SEK M	75.3	77.3
Profit/Loss before appropriations, SEK M	4.2	-1.9
No. of employees	119	116

SEVENSK MARKSERVICE AB (Land & Property Management)

(It offers contracting services for environmental friendly management and maintenance of land areas and property, primarily for the public sector and major property owners)

Key figures	1994	1995
Turnover, SEK M	35.1	56.6
Profit/Loss before appropriations, SEK M	3.0	3.9
No. of employees	31	55

(Table 7 contd..)

SÅNGA-SÅBY KURS OCH KONFERENS AB (Conference Center)

(As Sweden's most environmentally developed conference facility, it offers a well-planned and effective conference environment, with personal service and select food based on ingredients supplied by Swedish farmers)

Key figures	1994	1995
Turnover, SEK M	16.7	21.7
Profit/Loss before appropriations, SEK M	-0.5	0.4
No. of employees	23	29

Table 8
Financial Analysis of LRF's Performance over Last Two Years

	LRF	
	1994-95	1995-96
Current Ratio	1.2511	1.3829
Quick Ratio	1.2465	1.3784
Working Capital/Current Asset	0.2007	0.2769
Cash Ratio	0.0784	0.0859
Fixed Capital/Capital Employed	0.6593	0.5799
Debt Ratio	0.0364	0.0907
Debt to Equity Ratio	0.0545	0.1408
Return on Equity after Tax	0.0630	0.1417
Return on Total Capital before Interest and Tax	0.0205	0.0684
Return on Total Capital after Tax	0.0421	0.0913

Source: Analysis based on Arla Annual Report 1995-96.

Caselet 2: THE ARLA GROUP, SWEDEN

Sweden's first dairy Cooperative Society was formed in 1881 at Stora Arla Farm in Vastmanland Province. Today nearly 11,400 dairy farmers own this incorporated association and retains the name "Arla" in its title. As the Sweden's largest dairy undertaking as regards perishables, Arla produces nearly 60% of all Swedish milk.

Arla is a collective name for a family of enterprises. The dairy operations are conducted through three companies: Arla Farskvaror, Arla Ost and Arla Foods. The first one, concerned with perishables, is engaged in development, manufacture and marketing of dairy products, which are distributed to 25,000 shops, mass-catering establishments and industrial plants for onward supply of fresh dairy products to over 5 million consumers. Arla Ost, accounting for about two-thirds of all cheese production in Sweden, produces the largest variety of hard cheese in the world (nearly thirty). The products of the industrial company called Arla Foods produces products like butter, jam, chocolate, milk powder, cream powder etc. The Arla Group also includes several wholly owned subsidiary companies, which are engaged in making, marketing and selling of products both to the retail trade and to mass caterers. The category of subsidiary companies also include two service undertakings, which deal with technical consultancy and product development matters. The distinctive features of Arla can be gauged from its unique way of handling the five Ms: Mission, Members, Manpower, Management & Money.

Quite conscious of the fact that its survival is determined by how successful it is in an open and free market - especially following the expansion and development of the EU as well as the global trade in food products - Arla's mission is to defend and reinforce its position in old and new markets alike.

The recent thrust of the Arla Members Division, which handles all issues affecting members in their roles as owners, milk suppliers and customers, has been on quality work with raw milk. With this end in view it has introduced the following programmes:

- A self-inspection programme for every member to go through and inspect his farm for himself with the aid of the points listed on a quality form. This programme coupled with the LRF's Environmental Housekeeping programme is expected to create a solid foundation for further strengthening of Arla's quality profile. The distinctive features of Arla's operations in recent times are as follows:

- Since July 1, 1997 all milk refrigeration tankers are owned by the individual members.
- Arla Minior's activities aimed at primary school children have provided about 30,000 children with an insight into life on dairy farms.

- In order to allow production capacity to be better utilised and costs cut, the members have been induced to undertake systematic and efficient planning of transportation in cooperation with the dairy production managers.

- To improve member involvement, (a) Member Contact Meetings are organised to strengthen contacts between members and elected representatives, (b) seminars and study trips are organised to increase members' insight into Arla's operations, (c) elected representatives are trained on an ongoing basis on issues and decisions which affect Arla's operations, and (d) seminars are held exclusively for elected female representatives to promote women within the various links of the membership chain and also in the position of elected representatives.

- Environmental work involving animal welfare, new organic products, solutions tending use of less packaging materials and coming up with ecologically sound chemicals etc. probably constitutes the most distinctive feature of Arla. The major landmark achievements in this context are listed below:

- Since the introduction of KRAV-approved (KRAV is a certification body for organic food products) in 1994, the availability and range of organic milk products have increased to include whipping cream, yoggi in lingonberry/blueberry and strawberry flavours, herrgardsost cheese, milk powder and several organic varieties of baby food. As part of its long-term investment in organic milk production, Arla has established a research fund for this purpose.

- Besides continuing with the ban on use of sewage sludge on crops used as cattle fodder, Arla has either wholly or partly replaced chemicals which fail to meet "Good Chemical Choice" or "Good Environmental Choice" criteria as laid down by the Swedish Society for the Conservation of Nature.

- Arla is working towards reducing the environmental impact of the packagings as per the Producer Liability Act of 1994, which requires a company packaging or importing foodstuffs to achieve the 30% packaging recycling objective.

- Environmental audits are being carried out at Arla's most production facilities.

The enterprise management features of Arla can be appreciated from the performance of its three major companies and other subsidiaries over the last three years in Table 9, while its financial management features can be seen from Table 10. A selection of Arla products and brands is available in Appendix 1 (reproduced from Arla Annual Report 1995-96, pp.16-17). The following rather unique performance characteristics of the Arla Group of companies are worth-noting:

- Arla Fresh Products' long-term investments include dissemination of information aimed at children and families with children, TV and other media advertising, investment in organic milk, investment in milk vending machines in schools called Arla Milkbar, and use of Pippi Longstocking, the popular Swedish Children's book character in Arla's milk packagings.

- The range of Arla Fresh Products covering milk, fermented milk, cream, yoghurt, fresh cheese, butter and margarine, fruit juices and soups comprises of over 250 different quality articles of strong brand names.

- While total sale of cheese in Sweden has gone down by 2% during 1995-96 due to a reduction in cheese consumption and to increased imports, the market share of Arla Cheese has increased to 64% during the same period.

- In spite of decline in total turnover, Arla Foods, which develops, produces and markets input goods for the food industry and finished products for other companies, retained its market share and even improved position in some product areas through reinforcement of established products like customer-adapted milk fat powders, liquid ice cream mixes and milkshakes, besides active product development in the ice cream range and in the whey sector (in the form of a completely new product called WPC - that is, Whey Protein Concentrate).

- Arla Butter, which specialises in butter and margarine products, has retained its strong position with its three brand names in the Swedish market in spite of price rises.

- Arla R&D, which is engaged in product development, product care, and quality and environmental assurance for the entire Arla Group, invests about 1% of the total annual turnover of the Group. Its major areas of activity include methods of analysis for both harmful and useful bacteria (the latter include probiotic bacteria which promote health by acting on the gastrointestinal tract), improvement of competence in sensory values and rheology (enabling measurement of product qualities like smell, flavour and viscosity), whey processing and whey protein-based drinks for the hospital sector, life-cycle analysis of products, and ISO certification.

- Semper, a subsidiary of Arla, produced a new oat formula made from Swedish oats - the type of grain with least gluten, which allowed for new gluten-free mixes for adults and children.

- Frödinge Mejeri, another subsidiary of Arla, which manufactures and sells a Swedish speciality cheesecake along with frozen pies and pastries, is successful in exporting nearly 26% of its total volume of production to Germany and the UK.

Table 9: Performance of ARLA Group of Cooperative Companies over Last Three Years

Particular	1993-94	1994-95	1995-96
Arla Fresh Products			
Turnover, MSEK	6037	6857	7360
Fulltime Employees	2750	2692	2744
Arla Cheese			
Turnover, MSEK	2873	2994	3256
Fulltime Employees	1266		1347
Arla Foods			
Turnover, MSEK	3048	3121	1506
Fulltime Employees	895	1024	768
Arla Butter			
Turnover, MSEK	-	-	1683
Fulltime Employees	-	-	212
Semper AB			
Turnover, MSEK	1065	1226	1111
Net profit, MSEK	71.9	80.4	17.0
Frödinge Mejeri AB			
Turnover, MSEK	149	178	208
(Table 9 contd..)			
Net profit, MSEK	13.8	5.6	15.0
Medipharm AB			
Turnover, MSEK	26	40	43
Net profit, MSEK	3.5	8.9	8.5

Source : Arla Annual Report 1995-96.

- About 65% of the turnover of Medipharm, a biotechnology company and yet another subsidiary of Arla, which cultivates, concentrates and freeze dries bacterial cultures for foodstuffs and agriculture, refers to exports - primarily to northern Europe.

Table 10: Financial Analysis of Arla's Performance over Last Two Years

	ARLA	
	1994-95	1994-95
Current Ratio	1.4540	1.2511
Quick Ratio	0.8126	1.2465
Working Capital/Current Asset	0.3122	0.2007
Cash Ratio	0.2289	0.0784
Fixed Capital/Capital Employed	0.7125	0.6593
Debt Ratio	0.1466	0.0364
Debt to Equity Ratio	0.2377	0.0545
Return on Equity after Tax	-0.0229	0.0630
Return on Total Capital before Interest and Tax	0.0096	0.0205
Return on Total Capital after Tax	-0.0141	0.0421

Source: Analysis based on Arla Annual Report 1995-96.

Section 5. Lessons & Concluding Observations

It is most unfortunate that India is yet to appreciate the virtues of a free and spontaneous cooperative movement and support it through enabling legal and other policy framework. This is in sharp contrast to the scenario prevailing in the citadels of capitalism - the developed countries of the world, which are preaching the virtues of the market no doubt, but being quite aware of the fact that a market cannot act in a vacuum, are not ashamed of supplementing it by suitable competition policy and institutional structures to safeguard the interests of the farming community. Nor do they take away the autonomy of people's organisations on the plea of policy support. The major policy lessons which follow from a comparison of the Indian scenario with that of the developed nations like Sweden are elaborated as follows:

Need for a Broader-based Interest Organisation of the Farmers: In spite of proliferation of a large number of parastatal state and federal level cooperative bodies over the last five decades since Independence, India is yet to come up with a strong and independent interest organisation of the farmers and the local community. A brief account of the activities of COGECA, the interest organisation of agricultural and fisheries cooperatives at the EU level, will bring out the irony of the Indian situation:

"... COGECA participates in the preparation and implementation of a number of Community policies amongst which the Common Agricultural Policy is in the first place. The purpose of COGECA's action is to ensure that any legislation and related measures decided at E.C. level are as practicable as possible for co-operatives and provide a feasible framework for this specific group of enterprises, to the benefit of member farmers.

Apart from this important task of representation to the Community Authorities, COGECA increasingly undertakes to promote co-operation between co-operatives across borders and to develop concrete initiatives and actions to provide a platform for genuine consultation and collaboration between cooperatives. Finally, COGECA aims at strengthening the action and position of co-operatives, not only politically in liaison with the professional agricultural organisations but also and, in the first place, to improve their competitive position on the market so as to enable them to put up a countervailing power to the mighty multinational companies and their international and sometimes worldwide concentration." (COGECA: Agricultural Cooperation in Europe - COGECA and the Agricultural Cooperatives in the 12 Member States of the EC, p.5).

While COGECA wants the EC to pursue policies which would provide adequate framework conditions which do not impede but secure and sustain the entrepreneurial development of agricultural cooperatives, its specific demands as a lobbying body are as follows:

- The farm price and market policy must be unambiguous and not be subject to sudden changes.
- The competition policy of the E.C. should pay due attention to specific co-operative characteristics and adjustments made by agricultural co-operatives, and be differentiated from other businesses which are often set up as multinational companies, in this way ensuring that European farmers can strengthen their position in European and world food markets.
 - Due attention should also be paid to agricultural co-operatives in connection with the reform of the Structural Funds and the related revised market structures policy to improve the conditions under which farm products are processed and marketed.
 - The agro-industrial research and development policy of the E.C. should be developed and implemented in close collaboration with agricultural co-operatives so as to make sure that farmers benefit from this policy.
 - The policy for the future of rural society is inconceivable without the contribution of agricultural co-operatives.
 - Agricultural co-operatives must also be involved in the future active quality policy for foodstuffs. This policy should not only meet the quality requirements of consumers but also enhance the value of agricultural products to the benefit of farmers and their co-operatives.
 - The policy for small and medium-sized undertakings should also take due account of agricultural co-operatives, in a double respect: on one hand, most agricultural co-operatives are small or medium-sized undertakings and, on the other, the survival of many individual private farms depends on the economic results of the co-operative they are associated with.

Unlike COGECA at the EU level or LRF at the Swedish national level, both of which are broad based brotherhood-type organisations of farmer-owned enterprises, Indian cooperative movement is not only fragmented across commodities and products but also parastatal in nature, given the high degree of government participation in equity capital and the consequent intervention in the day to day functioning of the cooperative federal bodies. Examples of brotherhood form of organisations where individual constituents form a network and join hands with each other on equal footing - fighting out internal contradictions among the 'brothers' through internal institutional processes and always posing a common front to the outsiders including the government - are also available elsewhere - SASA, the South African Sugar Association comprising of the cane-growers and their sugar mills being another outstanding example. Such broad-based interest organisation of the farmers, which alone can effectively check the 'divide and rule' policy of domestic as well as international vested interest groups, are simply missing in the Indian context inspite of several rather local lobbying groups like the Cooperative Development Foundation (CDF) at Hyderabad, Cooperative Initiative Project (CIP) at Anand etc. So far in the Indian context the cooperatives and private corporations, inspite of having specific and limited long-term strategic alliances, have generally looked upon each other as enemies and untouchables. Government departments/corporations and cooperatives, on the other hand, have failed to retain their separate business identities. It is high time to change this traditional mind-set given the ever-increasing threat from the MNCs.

Professional Approach towards Image-building and Creation of a Business Niche: What cooperatives in India need today is rapid image-building - that they are not parastatal welfare organisations but serious and professional business propositions just like the corporate sector. There are three important directions in which the Indian cooperatives must position themselves in order to win a niche for themselves:

- First, following on the outstanding examples of AMUL in Gujarat or VERKA in Punjab, which are well ahead of their private counterparts in terms of product standard as well as product variety, the cooperatives must make concious and consistent efforts to convince the customers that they are the standard setters in the market place and that they are far ahead of others in producing the most environ-friendly products. Just like ARLA (caselet 2), they can be first in adopting and strictly following the health standards as prescribed by national and international organisations and in undertaking necessary R&D activities, and can thus capture the niche market for health-concious customers of the coming years.
- Second, just like LRF or ARLA, they must diversify not merely vertically in commodities, but more importantantly, horizontally and in services. It is important to note in this context that LRF has brought under its umbrella the associations of the dairy owners, the livestock owners, the meat sellers, the egg producers, the farmers' purchasing and marketing organisation, the seed and oilplant growers, the potato growers, the starch producers, the distillary suppliers, the sugar beet growers, the market gardeners, the vegetable growers, the forest owners, the fur farmers and so on and so forth - all enjoying economics of scope

and especially economies of bargaining while confronting any outsider including the government. Wholly or partially farmer-owned Swedish service companies and their subsidiaries provide the following multifarious services: mortgaging, banking, insurance, culinary innovation, contingent labor supply, market surveys, legal advice, consultancy, publishing, accounting, health care, land and property management, conference center facilities etc. Indian commodity or credit cooperatives must therefore be prepared to give up their traditional and narrow mind-set in favor of supplying a diversified set of services to their customers. In other words, Indian cooperatives must actively promote what Datta and Kapoor (1996) have called the concept of 'member-centrality', that is promoting member loyalty over a diversified set of products and services of the same brotherhood organisation.

- Third, in order to have control over distribution channels and also to win over the consumers, producers' cooperatives must directly or indirectly promote wholesale and retail trade cooperatives, besides patronising consumer education and consumer grievance redressal forums. The examples of Warana Bazar, Apna Bazar, Grahak Peth and Raigad Bazar of Maharashtra deserve special mention in this context. This strategy would go a long way in strengthening the basis of our civil society, besides providing a competitive challenge the all-powerful distributional network of the MNCs, which would otherwise find it too easy to conquer, capture and eventually manipulate the vast Indian rural market.

Newer Instruments to Raise Capital without Compromise on Autonomy: As shortage of equity and subsequent loans is probably one of the major drawbacks of the cooperative form of business in general and more so in the Indian context, the following suggestions are made:

- First, while there is nothing wrong in the government supplying a part of the equity capital to begin with in exceptionally critical situations, the members' stake must constitute a lion's share of the initial share capital and the members must be prepared to pay back the government contribution with dividend within a stipulated time frame in order to restore the character of a truly farmer-owned organisation. Financially sound organisations like IFFCO, KRIBHCO and MARKFED, Punjab can pay back government share capital, purchase both financial and functional autonomy and play the role of cooperative promotional agencies. The fact that the outdated cooperative acts have already been suitably amended in Andhra Pradesh and Bihar suggests that politicians and bureaucrats can be convinced about the necessary reforms.

- Second, instead of depending exclusively on government help, which tends to accompany such evils as bureaucratisation and politicisation of cooperatives, Indian cooperative movement must look for initial support from already established cooperative bodies, thus putting into practice one of the glorified principles of 'cooperation among the cooperatives'. While non-member capital can be attracted to some extent with a favorable cooperative policy, there is no harm in formalising a local cooperative shares market among the farmers, which seems to be there in any case in South Gujarat or Maharashtra sugar factory areas as reported by Rajagopalan and Shah (1994), or even allowing the shares of higher-tier cooperatives to be floated among the sister cooperatives. Banking laws can be suitably altered to facilitate flow of surplus capital from one state to another through the newly constituted National Cooperative Bank of India.

- Third, cooperatives must be legally permitted to float their companies (as stipulated under the AP Mutually Aided Cooperative Societies' Act, 1995), which may be fully or partly owned by them - thus facilitating possible future alliances between cooperatives, on the one hand, and private/government corporations, on the other.

Simpler Law & Transparent System for Efficient and Effective Functioning of Cooperatives: Cooperatives being business manifestations of a people's movement, requires lucid and simple laws and a transparent management system for efficient and effective functioning. The extent of complexity in cooperative laws can be judged by comparing the first Cooperative Credit Societies Act provided by the British government in 1904 with the subsequent Acts and amendments provided after independence. It may be recalled in this context that the EU in order to have better governance has undertaken a programme called SLIM to make all legal stipulations simple, lucid and easily comprehensible to people in all walks of life. This is a must for the cooperatives. Yet another important thing for cooperatives is that annual balance sheet information ought to be comprehensive and provided in strict and standard format together with financial analysis and transaction cost analysis of the last five years' performance, so that the members can see how their organisation is functioning in economic and financial terms, and also debate on the possible courses of action.

Competition Policy: India is unfortunately one of the very few countries which do not have competition policy for Indian business vis-a-vis the MNCs - not to speak of a competition policy for Indian agri-business cooperatives vis-a-vis the corporate sector in general. Since cooperatives are a part of the voluntary sector, what Mr. K. K. Modi, President, FICCI has recently commented regarding the status of the Indian corporate

sector also applies equally to Indian cooperatives. Instead of either of the two extremes - namely, full protection to Indian monopoly businesses (including government) as happened before 1991 and a definite tilt towards a monopoly of the multinationals during the post-1991 period - he has argued for a balance between the two extremes. In order to create an alternative arrangement to avoid possible future extortion by the MNCs, he is in favor of having anti-trust laws in the form of imposition of a ceiling of say 50% on the stake and market shares of multinationals, anti-dumping duty on consumer durables and promotion of at least top 20 Indian brands so as to make them into Indian multinationals (Raghu, 1998). In other words, what Indian business in general and Indian agri-business cooperatives need is 'empowerment' rather than mere 'level-playing'. It is important to point out that competition policy, which allows purchase of at most majority stake but not 100 per cent equity, are prevalent in all developed countries including the US, the EU and Japan. It is high time for Indian private and cooperative businesses to join hands to impress upon the government to come up with a balanced competition policy favoring their healthy growth alongside the multinationals.

Rationalisation of Items under Quantitative Restrictions and Commodity-Specific Strategy for Agri-Imports Liberalisation: As Chand (1998) has rightly argued, there is urgent need for unilateral pruning in the long list of nearly 800 agricultural items currently under Quantitative Restrictions (QRs), as many of these are insignificant in terms of trade and hence their removal as per the GATT would help India improve her image and score some points in the WTO. Agri-commodity specific import liberalisation strategy as suggested by him (Table 11) seems to go a long way in boosting Indian agri-business in general and Indian agri-business cooperatives in particular.

Table 11: Agri-Commodity Specific Import Liberalization Strategies

Sl No	Commodity Groups	Suggested Strategies	Rationale
1	Wheat, Non-Basmati Rice, Coarse Cereals, Sugar, Milk and other Dairy Products	Moderate tariffs to protect domestic producers	Achieving self-sufficiency
2	Coffee, Rubber, Spices, Condiments and Medicinal Plants	Low tariffs on imports	Development of micro-niches require long-term production strategy and institutional support
3	Basmati Rice, Fine Rice, Cotton, Tobacco and Tea	Removal of QRs and aggressive export promotion	Removal of QRs does not affect domestic producers
4	Onion, Potato, Mango, Grapes, Banana, Fruits and Floriculture	Removal of QRs and reduction in import duties	Strategy not likely to hamper production and farm income
5	Groundnut and Soyabean	Removal of QRs, but tariffs to protect domestic producers having low productivity at present	Removal of QRs would facilitate regular supply to industry and boost up exports of oilmeals and oilcakes
6	Rapeseed, Mustard and Palm	Selective high tariffs for short to medium term	Protecting domestic producers
7	Pulses	Removal of QRs	Given deficit in pulses and violent price upswing in off-season, removal of Qrs would help stabilise domestic prices

We would like to conclude this paper with a quotation from Intriligator(1997), in which he has brought out the strengths of what he calls the ICG-type economic policies (highlighting the role of strong institutions, competition and government) during the process of transition to a market economy as being successfully pursued by China, Vietnam, Czech Republic and Slovenia in sharp comparison to the strict IMF-World Bank prescribed SLP-type policy (emphasising stabilisation, liberalisation and privatisation), which has been pursued blindly for quite some time by countries like Russia and Ukraine with disastrous consequences:

"The results for the economy depend mainly on economic policies, rather than on whether there is a democratic or non-democratic form of government. Contrast below Russia and China, the two largest socialist economies that followed different economic policies and experienced very different outcomes. Also contrast the Czech Republic and North Korea.

RUSSIA, a democracy, chose many wrong policies for its economy in following the SLP approach that was recommended by Western economic advisors and required by the IMF and World Bank for funding (a "one size fits all" universal prescription for the transition that ignores the differences between nations and that did not work in Russia):

- Stabilization of the macroeconomy, with limits on money creation, government budget deficits, trade deficits.
- Liberalization of prices and of international trade.
- Privatization of state-owned enterprises.

Unfortunately, Russia ignored three elements, ICG, that are essential for a market economy and that were used in more successful transitions:

- Institutions, that are required in a market economy, including property rights, a legal system, a sound currency, commercial and investment banks, a commercial code, accounting, insurance, finance, and advertising...
- Competition, that is a major feature of a market economy, where privatizing state-owned monopolies has led to private monopolies, with all their excesses of price gouging, rent seeking, asset stripping...
- Government, that must assume a major role in establishing and regulating the institutions, fostering competition, and playing a central role in a modern mixed economy, as in all Western industrialized market economies." (*Ibid*p.1-2)

It is high time that Indian intelligensia and the policy-markers pay some attention to the above-stated findings of a very well-known American economist from a school known for its pro-market preachings, and try to derive suitable lessons while framing the economic policies towards Indian business in general and towards Indian agri-business cooperatives in particular.

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APPENDIX-1

BRAND NAME	PRODUCT VARIETY	BRAND NAME	PRODUCT VARIETY
MILK		COOKING PRODUCTS	
ARLA Mjölik	whole milk	ARLA vispgrädde	whipping cream
ARLA mellanmjölk	semi-skimmed milk	ARLA ekologisk vispgrädde	organic whipping cream
ARLA lättmjölk	skimmed milk	ARLA kaffegrädde	coffee cream
ARLA ekologisk mellanmjölk	organic semi-skimmed milk	Kelda	ultra-pasteurized cream
H-mjölk	UHT milk	ARLA gräddfil	sour cream
Minimjölk	ultra-skimmed milk	Creme	Fraiche
	old-fashioned unhomogenized milk	Matlagningsyoghurt	cooking yoghurt
A-mjölk	milk with added acidophilus	Kesella	quark
Laglakros mellanmjölk	low-lacrose semi-skimmed milk		
FRESH CHEESE		FERMENTED MILK/YOGHURT	
Keso	cottage cheese	Arla filmjölk	fermented milk
JUICES, NECTAR, FRUIT CREAMS, SOUPS		Arla mellanfil	lowfat fermented milk
JO	-	Arla lättfil	skimmed fermented milk
God Morgon	-	Arla ekologist filmfolk	organic fermented milk
Bravo	-	A-fil	fermented milk with added acidophilus
Del Monte	-	A-yoghurt	yoghurt with added acidophilus
Tropicana	-	Onaka	-
Frukternas Nektar	-	Kefir	-
Sagolika	-	Längfil	old-fashioned fermented milk
Jippiii	-	Mildyoghurt	med honung mild yoghurt with added honey
FRUIT YOGHURTS, DESSERTS		Mild lättoghurt	mild slimmed yoghurt
Yoggi	-	Bifilus	-
Bärry	-	Dofilus	-
Yoplait	-	BUTTER AND MARGARINE	
Petits Filous	-	Bregott	-
Duett	-	Lätt & Lagom	-
		Svenskt Smör	butter
HARD CHEESES		LOW-FAT HARD CHEESES	
Arla Ekologist Herrgård	organic cheese	Arla Herrgård mager	-

Appendix-1 contd..			
Arla Grevé	-	Arla Hushåll mager	-
Arla Herrgård	-	Drabant mager	-
Arla Hushåll	-	Drabant mager	-
Arla Präst	-	Kadett	-
Arla Svecia	-	Magré	-
Billingeost	-	Riddar mager	-
Blå Gotland	-	GRATELLA GRATED CHEESES	
Dackeost	-	Gratångost	augratin cheese
Drabant	-	Pastaost	pasta cheese
Falkenberger	-	Pizzaost	pizza cheese
Lucullus Port Salut	-	Salladsost	salad cheese
Lucullus Fromino	-	Tex Mex	
Kvibille Special	-	DESERT CHEESES	
Ostmästaren Adelstierna	-	Bjuv	-
Ostmästaren Magnus Ladulås	-	Crème Châreau	-
Ostmästaren Biskop Thomas	-	Desirée Bric	-
Ostmästaren Kryddost		Desirée Gondola	-
Riddar	-	Desirée Feta	
Stt Olofs gräddost	-	Desirée Färskost	fresh cheese
Stureost	-	Desirée blå original	blue cheese
Svensk Edamer	-	Desirée original	-
Västerviks Gräddost	--	Kvibille Gräddädel	-
Wästgöra Kloster	-	Kvibille Ädel	
Aseda Gräddost	-		
SEMPER		FRIGGS	
Baby Semp	-	Bouillon	-
Baby food in jars	-	Herbal teas	-
Baby cereals	-	Herbs and spices	-
Välling	formula	KRAV-approved muesli	-
Frukosrvälling	adult breakfast cereal	Eterna	-
Esseli gelé	-	Vitamin and mineral supplements	-
Gluten-free biscuits	-	C-brus	soluble vitamin C
Gluten-free mixes		Ginsana	-
Gluten-free crispbreads	-	Gericomplex	-
Krongrädde	sterilized cream	Kwai	-
Riddargrädde	sterilized cream	Apple cider vinegar	-

Appendix-I contd..			
Semper powdered milk	-	Juices - vegetable and fruit	-
Cappuccino	-	Megajuices	-
Crêpes	-	Comp Lätt	dietary supplement
Minced meat dishes	-	Rice cakes	-
Ice cream accessories	-	Beans, lentils and seeds	-
Pancakes	-	Fiberkex	fibre-rich biscuits
Pucko	chocolate drink	Ready-prepared vegetarian dishes	-
Ögonblink	cocoa and chocolate	Dr Koussa	-
ANJO		TALLMOGARDEN	
Kyolic	-	Bouillon	-
Anjo GBS Gingko	-	Juice	-
Anjo Omega-3	-	Muesli	-
Anjo Vita Q	-	Tea	-
Anjo AHA cream	-	SEMPER SPECIAL PRODUCTS (AVAILABLE AT PHARMACIES)	
Anjo Cellulite lotion	-	Baby tube feeds	-
Biostrath	-	Low-lactose semi-skimmed milk	-
Rabenhorst	-	Pre Semp	-
Eden	-	Resorb	-
Domaco teas	-	Semper Bifidus	-
Domaco herb sweets	-	Soja Semp	soy-based formula
Albi juices	-	Fluid replenishments	-
SEMPER NUTRITION (FORMERLY MEDIFOOD)		EXPORT PRODUCTS BUTTER AND MARGARINE:	
Semper tube feeds	-		
Semper Complete diet foods	-	Brelight	Czech Republic/Slovakia
Addera	-	Klick	Finland
Semper Berikning	-	Maslo Medium	Poland
Semper Energi	-	VIKING Butter	Russia, Estonia, Middle East, Far East
Semper Protein	-	EXPORT PRODUCTS HARD CHEESES:	
Thick & Easy	-	Arla Troll	Spain, France
Prune drink	-	Birkegård	Denmark
Docidus	-	Svanegård	Denmark

Appendix-1 contd..			
Lactaid	-	Jungmanni	Finland
Pofiber	-	Arla Morgon	UK
FRÖDINGE		Arla Kadett	UK
Swedish cheesecake	-	Rustholli	Finland
Frozen cakes	-	Arla Svea	Spain
Fruit pies	-	Arla Småland	Finland
Savoury pies	-	Lo-Chol	Australia
EXPORT PRODUCTS		Elchlander	Germany
DESERT CHEESES:			
Swedish Blue	UK	Wikinger	Germany
Royal Reserve	UK	Arla Natura	Germany
		EXPORT PRODUCTS	
		FRUIT YOGHURT:	
		Arla Jogurtti	Finland

Note: For export items the second column indicates the major destinations.

Source: Adapted from Arla Annual Report 1995-96

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