



Gouvernance des coopératives agricoles dans une économie en reconstruction après conflit armé : le cas de l'Afghanistan

Mohammad Edris Raouf

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UNIVERSITÉ PAUL VALÉRY DE MONTPELLIER III
ÉCOLE DOCTORALE ÉCONOMIE ET GESTION DE MONTPELLIER ED 231,
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DÉVELOPPEMENT), SUP-AGRO MONTPELLIER

**Gouvernance des coopératives agricoles dans une économie en
reconstruction après conflit armé, le cas de l'Afghanistan**

*Thesis Submitted in fulfilment of the requirements
for the degree of Doctor of Philosophy
at the University of Paul Valery (Montpellier 3)*

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économie en reconstruction après conflit armé, le cas de
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**Sujet de Thèse : « Gouvernance des coopératives agricoles
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DEDICATED WITH EXTREME AFFECTION AND GRATITUDE TO

AFGHANISTNA AND MY BELOVED PEOPLE

Preface

I humbly begin by soliciting the blessings of Almighty Allah “بسم الله الرحمن الرحيم” (In the name of Allah the compassionate and the most Merciful).

I cannot resist my temptation to recall the events that unfolded before deciding to make up my mind to pursue research in the agricultural cooperative sector. I am fortunate to be associated with the Islamic Republic of Government of Afghanistan for over 15 years and being engaged with Agriculture Faculty of Kabul University as well as with the activities of French Cooperation Office for Ministry of Agriculture, Irrigation and Livestock (FCOMAIL), Kabul, as my place of work which focuses on farmer centric projects for livelihood improvement of the impoverished farmers of Afghanistan. This was the beginning of my understanding of the agricultural sector in general and more importantly, the plight of the poor farmers in particular. When I introspect as to why the farmers of Afghanistan are poor despite the fact the country is endowed with nature’s bounty, favorable climate and geographic diversities and above all, hardworking agriculturists and pastoralist who eke out their livelihood primarily from agriculture, I often confront with a paradox. A better way to explain such phenomenon would be weak governance, missing institution, external maneuvering, infrastructural bottleneck and so on, most of them are supply side issues. All these are important reasons, and can be taken up for in-depth research and analysis in the academic world and in development policy eco-system.

From the above clue, I have picked up “missing rural institution” as a broad subject of agricultural research wherein agricultural cooperative is one of the main pillars in the agricultural development paradigm. The specific area of research was further crystalized upon my arrival at the University of Montpellier, International Economics & Politics, MOISA Research Team (SupAgro), Montpellier, on a liberal fellowship grant which was kindly made available by the French Embassy, Kabul and Co-funded by AFD, Paris in 2015. While at the University between 2015 and 2016, I have had opportunities to enhance my knowledge base through intensive literature review, understanding contemporary agricultural research in the developing as well as in the developed world, I was also engaged in teaching at the graduate level program alongside continuing literature review for my prospective research. The University constituted a steering committee for directing and advising me during various phases of my research and it was at the behest of this Committee that the focus of my research was reoriented towards applicability of Theory of Cooperative Governance, while I was pondering with the Theory of Collective Action as well. It was at the beginning of 2016, and thorough a progress review, I was suggested by my ex-thesis Adviser, Co-adviser and the steering committee that in the context of war- torn economy of Afghanistan, it would be appropriate to work on the Governance theory of the agricultural cooperatives. However,

invaluable knowledge and insights were gathered sharpening theoretical orientation and available empirical evidence supporting many inter related theories.

During third year (2017) of my research, I concentrated on collecting ground level data from a host of institutions: primary members of the cooperatives, Board of Directors, cooperative sympathizers, cooperative leaders, employees and other stakeholders. This information's were triangulated with the data gathered from the workshop conducted involving all officers of Directorate Agriculture Cooperative Development (DACD) to understand the issues of cooperative governance, deficiency in institutional delivery of inputs and services both from demand and supply sides, under the context of Afghanistan economy, which has been undergoing a continuous phase of trauma and uncertainty. Many finer and intricate issues in cooperative governance were highlighted through case studies, focus group discussions and used in triangulation exercise as additional highlights and inferences.

The draft thesis was submitted at the University in January 2018 and valuable comments and feedback were received in May 2018. Accordingly, the draft was modified, accommodating comments and suggestions, and also indicating scope for additional research, taking lead from the present research. This thesis has also been prepared from the point of view of institutional requirements to undertake a reform agenda in the agricultural cooperative sector, while attempting to meet academic requirements of the University, which my conscience had always stirred me throughout my research engagement with the University.

It is a humble effort to do an exploratory research from a person with conservative social, cultural and academic background of a country that is terribly plagued with insurmountable socio-political issues, and absence of higher education of learning. Moreover, gathering anecdotal reference for the thesis from within the county was itself a major issue that the present research has faced at every step.

My inner self has continuously stirred my mind to do something for the needy farmers of Afghanistan, who desperately require significant reforms and development inputs so as to alleviate them from the multi- dimensional limitations and uncertainty that they face. It is my pleasure to dedicate this humble effort of mine for the genuine cause of the farmers of my country. In course of my research, I realized that without the strong institutional support and organizational back stopping, the plight of Afghan farmers is unlikely to be improvised and for this to happen, effective institutional governance structure and its implementation is a critical input that cannot be overlooked.

July 11, 2018

(M. Edris Raouf) Kabul, Afghanistan

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Completion of this doctoral dissertation was possible with the support of several people. I would like to express my sincere gratitude to all of them.

First of all, I am extremely grateful to my research director Mr. Cyrille FERRATON, for his valuable guidance, scholarly inputs and consistent encouragement that I received throughout the research work. This feat was possible only because of unconditional support provided by Mr. FERRATON. He has supported me at a time when my ex-director was retiring. He accepted my work with amicable and positive disposition. Since taking over my direction, he always made himself available to clarify my doubts despite his busy schedule and I considered it as rare privilege to do a part of my doctoral program under his guidance and to learn from his research expertise. Thank you Sir for all your help and support.

I have been immensely benefitted by the professional advice and motivational support by my ex-thesis supervisor Dr. Helene ILBERT without whose support and guidance I could not have taken the thesis to its logical conclusion. I particularly appreciate her spontaneous support even during late hours of night whenever I used to escalate any problem and solicited her help and guidance. I grateduously acknowledge her support.

I was so fortunate to complete this thesis under two supervisors as well as two co-supervisors. My thesis co-supervisor Dr. Louis Antoine SAISSET and my ex co-supervisor Dr. Sylvaine Le Meilleur, CIRAD, UMR MOISA were equally supportive as my advisers in extending necessary help and guidance, as and when required, and I express my gratitude to both of them. The honorable members of the steering committee, Mr. Olivier Rives and Mr. Phillippe Moga have in fact relieved part of my initial ambiguities that I had faced while nurturing many related areas of agricultural development and I am happy to mention that they were extremely supportive in putting me into the right academic frame, for which I am thankful to both of them. These two gentlemen, in fact, were more than a member of steering committee to me I never can forget their support.

This research probably could not have been possible but for the liberal scholarship that French Embassy had granted me which was further supported by AFD Kabul. I gratefully acknowledge their financial support, with a request that they should continue to fund more researches for my country and also sponsor scholars from Afghanistan to the advanced learning centers of France to pursue research in the areas of mutual interests. Thank you Olivier HUYNH VAN, Pascal Hans Director of SCAC, Allan Massetto from French embassy in Kabul and my best friend Jocelyn Levenure AFD country director in Kabul. Thank you Jocelyn for being all the time beside me and motivate me for ending this task.

Philippe Gauffretau my technical adviser in FCOMAIL was kind enough to encourage me daily

for completion of this task, thank you BABA (Grand Father in Dari) for being with me all the time. I came in contact with Prof Samar K Datta, ex- Chairman, Centre for Management of Agriculture (CMA), Indian Institute of Management, Ahmedabad, who is a doyen in cooperative research in the Indian sub- continent, and took keen interests to influence my thought process to focus on cooperative governance theory to enhance policy level utilities of my present research in Afghanistan. I am indeed thankful to him for all the help and support extended to me. Dr T N Datta, ex- General Manager, National Dairy Development Board, India who stood beside me like my own family member and helped me in preparing the final version of the draft and I express my thanks to him. Mr Abdul Razaq Mujadidi, Director, DACD, IRGoA, Kabul provided official data on the agricultural cooperatives besides actively taking part during the workshop deliberations and highlighting their issues with MAIL as well as with provincial DACD officials. While holding on to my official responsibilities in Kabul in 2017, I had to maintain a critical balance between the unscheduled official urgencies of my superior officers including Deputy ministers and His Excellency Agriculture Minister requirements and my research schedule at the cost of personal convenience, which was at times challenging. But my colleagues in FCOMAIL have never let me feel the pressure and in fact assisted me in providing secretarial and administrative support and I cannot recall each of them individually, but I certainly acknowledge all of them collectively. I would probably be falling in my moral responsibilities if I do not appreciate the support and encouragement that I have received from my respected parents, my wife and ever supportive family members, without their unstinted support and help, even during late night hours, I could not have completed the thesis. They were the real hero at the backend to support and motivate me to stay with the research and never lose focus. I deeply acknowledge their support and cheering mind set to enable me to complete this thesis. And finally, I wish to dedicate this humble research output of mine for the cause and benefit of my fellow farmers. I would consider myself to be privileged if some of the inputs of my research are used by the IRGoA for enabling policy formulation benefitting the farmers, before rededicating this research for the benefit of Afghan farmers, once again. Above all, I owe it all to Almighty Allah for granting me the wisdom, health and strength to undertake this research task and enabling me to its completion.

ACRONYMS AND ABBREVIATIONS

AADB	Afghanistan Agricultural Development Bank
AAEP	Afghanistan Agricultural Extension Program
ADB	Asian Development Bank
ADF	Agricultural Développement Fund
AFD	Agence Française de Développement
AI	Artificial Insemination
ANDS	Afghanistan National Development Strategy
ARIA	Agricultural Research Institute of Afghanistan
BRT	Business Receipt Tax
CBR	Capacity Building for Results
CIMMYT	International Maize and Wheat Improvement Center
CSO	Central Statistics Office
DACD	Department of Agriculture Cooperative Development
DAIL	Department of Agriculture and Livestock
DAP	Di-ammonium phosphate
EC	European Commission
EU	European Union
FAO	Food and Agriculture Organization
FCOMAIL	French Cooperation Office for Ministry of Agriculture, Irrigation and Livestock
FFS	Farmer field schools
FMFB	First Microfinance Bank
FTE	Full-time equivalent
GDP	Gross domestic product
GIS	Geographic Information System
GoIRA	Government of Islamic Republic of Afghanistan
ha	Hectare
HCDP	Horticulture Cooperatives Development Project
HLP	Horticulture and Livestock Project
IA	Irrigation association
ICA	International Cooperative Alliance
ICARDA	International Center for Agricultural Research in Dry Lands
IFAD	International Fund for Agricultural Development
ILO	International Labor Organization
JICA	Japan International Cooperation Agency
kg	Kilogram
LF	Lead farmer
MAIL	Ministry of Agriculture, Irrigation, and Livestock
MRRD	Ministry of Rural Rehabilitation and Development
Mt	metric ton
NADF	National Agriculture Development Framework
NCCC	National Coordination Committee for Cooperatives
NCU	National Cooperative Union

NGO	Non-governmental organization
NHLP	National Horticulture and Livestock Project
NICM	National Institute of Cooperative
NPP	National Priority Program
NRVA	National Risk and Vulnerability Assessment
R&D	Research and development
SME	Small and Medium Enterprises

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Abstract

Given the fact that the war-ravaged country of Afghanistan has committed itself to sustainable rural and agricultural development through the cooperative route, the present dissertation, seeing lackluster performance of agricultural cooperatives in the post-conflict era, decided to attempt to reverse this trend at least in terms of intellectual discourse. The main objective of this thesis is to analyze, both theoretically and empirically, the condition of governance structure in Afghan agricultural cooperatives, to understand the cooperatives from the viewpoint of their stakeholders and also to study the role of foreign aid into the cooperatives in the current context of Afghan agriculture. Accordingly, attempts are made to achieve a better governance of the Afghan agricultural cooperatives, which will make them robust thus avoiding large-scale failure of such organizations. The core issues addressed are: ascertain suitability of cooperatives, requirements in terms of governance structure, stakeholder cooperation and effective utilization of foreign aid so as to achieve cooperative success, and factors that constrain smooth functioning of agricultural cooperatives and evolving appropriate strategy to strengthen agriculture cooperative in Afghanistan.

The conceptual framework of this dissertation hinges on building a bridge between stakeholder cooperation and cooperative governance through a collective action route, so as to make cooperatives operational and effective in reality. So, it starts with identification and classification of all stakeholders – whether internal/external to the organization or whether they make direct/indirect contribution to the functioning of the organization. Naturally, the roles and the contributions of different stakeholders are examined before they are dragged into a collective action process – through law, rules, regulations, customs and traditions. So, the essential contribution of this dissertation is to provide this linkage between stakeholder and collective action theories to evolve an appropriate governance structure. The recommendations for strengthening and activating the cooperative governance structure are provided within a framework of demand for and supply of required institutional changes for comprehensive cooperative sector reforms.

While elaborating on the relevance of cooperative governance, this dissertation highlights the importance of combining several perspectives: collective action theory, stakeholder theory, institutional economics - all are now-a-days parts of the modern organizational economics. From the analysis of agricultural sector, basic weaknesses in the availability of physical as well as institutional infrastructure comes to the fore, thus necessitating building up of grass root

cooperatives becomes the mainstay of the Afghan development strategy in the eyes of the national government as well as its international supporters.

A few important observations emanated from analysis of primary and secondary data and case studies can be summarized under 5 broad areas. **First**, cooperatives being a special type of business organization demanding perfect synchronization between attributes of a democratic association and those of a business enterprise, both these attributes need to be promoted carefully while maintaining the necessary balance. **Second**, involvement of too many Ministries and even too many Departments within the same Ministry seems to be implicitly pauperizing the Afghan agricultural cooperatives. **Third**, the Cooperative Institute Department of Directorate of Agriculture Cooperative Development (DACD) being under pressure with no support other than grant of mere salaries to its faculty and staff, who are again recruited often without the necessary qualification, experience and skills, has further weakened the system. **Fourth**, while foreign aid became absolutely necessary at the beginning of the new Republic after the prolonged Civil War and conflict, in the absence of a well thought out plan and coordination for its use, its full potential is hardly being realized. **Fifth**, the idea of establishment of single commodity cooperatives favored under the Draft Law of 2013 has a serious limitation in the absence of suitable scale and scope economies.

Though apparently a legal framework for agricultural cooperatives is put in place, it is at most a necessary condition, but hardly sufficient for cooperative success. Based on detailed deliberations on the analysis of current status of cooperative governance, a set of recommendations with responsibilities of different stakeholders are assigned which needs to be adopted for a focused growth of the agriculture cooperative sector benefitting the poor and marginally placed farmers of Afghanistan.

Key words: Afghanistan, agriculture, cooperative, governance, civil war, foreign aid

CHAPTER 1

Introduction



Chapter 1

Introduction

Section 1.1: Background

Despite Afghanistan receiving substantial amount of financial assistance during the last decade, about 36% of its population continue to live below the poverty line (22.5 US Dollar/person/month). About 80% of them live in rural areas and depend mostly on agriculture and related activities, while more than 9 million Afghans cannot meet their basic needs. Moreover, more than half of the population is vulnerable to poverty and deprivation. Even a small shock in the system can push them below the poverty line (NRVA, 2007-08). While agriculture is the main source of income of the rural population, a typical farmer has less than 1 hectare of irrigated land with few farm animals. Therefore, agriculture and allied activities continue to be the most important economic activity for a rapid and sustainable development of rural livelihoods and for reduction of poverty in Afghanistan. But how to pull the vast rural population out of the low level equilibrium trap constitutes the central question the Afghan economy has to address.

Unfortunately, after more than three decades of civil war and conflicts, the Afghan economy lost all pre-existing infrastructure, institutions and even the confidence to embark on either a market-led or a state-led process of development. In Western Europe, where economic development took place first in human history, it took several centuries for the supporting institutions to come up to promote market-led growth (North and Thomas, 1973). The newly born Islamic Republic of Afghanistan couldn't afford to wait that long. Nor did this new state have either enough human capital or funds to promote a state-led growth. To overcome prevailing anarchy at the time of birth of this nation, Afghanistan decided to depend primarily on promotion of a third sector – namely, grass root based farmer organizations to initiate the process of development in the country side. In order to improve rural livelihoods, the government of Afghanistan therefore set comprehensive developmental objectives that target economic growth and poverty reduction through strategies to promote a farmer organization based transformation of the rural economy. Afghanistan National Developmental Strategy has naturally emphasized commercialization of agriculture, diversification of production and exports, and investment in the private sector in order to induce change from subsistence farming to market-oriented agriculture. In the process of commercialization of the country's subsistence-oriented production system to a more productive and market-oriented production system, it decided to transform agricultural support services, access to markets, and farmers' organizations to become more responsive and innovative (ANDS,

2008). Implicit in this development paradigm lies the institutional development strategy for farmers' organizations (Cooperatives, Farmer Organizations, Self Help Group etc.) that would drive the envisaged changes in the agricultural sector. The underlying thinking was that in the absence of appropriate institutional mechanism, the efforts put out by the government might not yield the expected result unless the rural institutions/collective organizations are strengthened. The principal objective of the current research is therefore to fulfil one of the most important pre-requisites of promoting rural development and enhancing farmer incomes through strengthening of the farmers' organizations.

There is yet another dimension to the proposed development approach. Because of socio political uncertainty in Afghanistan caused by external aggression followed by anarchic rule of the radical groups, the grass root level farmer organizations that normally participate in agriculture development were simply non-existent. A great vacuum therefore existed in the institutional mechanism to generate or drive growth at the local level. This is a structural issue in the governance mechanism of any development initiative, be it in Afghanistan or elsewhere in the World. The vacuum in Afghanistan becomes even more prominent due to continuous conflict engineered by external groups with different ideologies and radicalization of people's psyche towards development. To generate accountability in the development process, initiative could be fixed on some farmers' organizations (FOs) at the village level. Institutional approach to development in Afghanistan is therefore far more significant as the FOs are either non-existent or have collapsed.

With this end in view, the Islamic Republic of Afghanistan, as part of its Post-war reconstruction efforts, undertook a major program, 'National Solidarity Project (NSP)', with multi donor assistance from the World Bank, Danish International Development Agency (DANIDA), Canadian International Development Agency and Swedish International Development Agency (SIDA), being implemented by the Ministry of Rural Rehabilitation & Development (MRRD) to provide improved community infrastructure and social services project. The Project is presently in phase III.

Under this Project, Community Development Councils (CDCs) are organized at the village level following a democratic election process. The CDCs elect their office bearers, prepare plans as per the guidelines of the project, mobilize community contribution (not exceeding 10% of the project cost) and submit plans to district authorities for approval, and upon approval, engage themselves in implementation, supervision, and management.

The underlying principle behind establishing these CDCs are creation of unity, solidarity and consolidation of cooperation and assistance, ensuring social justice, accountability and book keeping, establishing legal rights, transparency, preventing corruption, ensuring active participation of the

people, reduction in poverty and building up of social capital. Implicit in them is establishing a village administration system through community participation. As per the information available, about 21,870 CDCs are established covering 34 Provinces in Afghanistan, with average number of CDS in excess of 1000 in each of the provinces of Ghazni, Herat, Nangarhar and Kandahar (Table 1.1).

Table 1. 1: Status of Community Development Council in Afghanistan

PROVINCE	DISTRICTS	# OF COMMUNITIES CONTACTED	# OF CDCS ESTABLISHED	% OF CDCS ESTABLISHED
BADAKHSHAN	27	1370	1354	98.83
BADGHIS	7	582	582	100.00
BAGHLAN	4	859	859	100.00
BALKH	14	844	844	100.00
BAMYAN	6	614	614	100.00
DAY KUNDI	8	443	439	99.10
FARAH	10	422	422	100.00
FARYAB	13	870	870	100.00
GHAZNI	18	1179	972	82.44
GHOR	9	861	861	100.00
HILMAND	12	656	496	75.61
HIRAT	15	1147	1146	99.91
JAWZJAN	10	449	437	97.33
KABUL	14	626	626	100.00
KANDAHAR	15	1093	533	48.76
KAPISA	6	578	578	100.00
KHOST	12	749	708	94.53
KUNAR	14	620	616	99.35
KUNDUZ	6	719	719	100.00
LAGHMAN	4	600	598	99.67
LOGAR	6	500	511	102.20
NANGARHAR	21	1148	1138	99.13
NIMROZ	4	295	300	101.69
NURISTAN	7	217	213	98.16
PAKTIKA	18	676	676	100.00
PAKTYA	10	672	670	99.70
PANJSHIR	6	234	234	100.00
PARWAN	9	623	617	99.04
SAMANGAN	6	462	462	100.00
SARI PUL	6	558	558	100.00
TAKHAR	16	933	920	98.61
URUZGAN	4	400	284	71.00
WARDAK	8	802	802	100.00
ZABUL	10	313	212	67.73
TOTAL	355	23114	21871	94.62

Source: Extracted from FCOMAIL file

A close look at the activities that are considered for creation through community participation reveal that they are essentially in the realm of social infrastructure and community development projects and not intended to directly affecting incomes and livelihood of the families through formation of cooperatives. Therefore, economic benefits to the inhabitants is not explicitly realized through these development initiatives, and there the argument that cooperatives are to be viewed as an institution of economic benefit is unrelated to the activities of CDCs. However, it must be acknowledged that implementation of CDC projects would facilitate realization of greater benefits through the cooperatives and therefore the “Theory of Convergence” should come into play for greater benefits to the society.

The argument that cooperatives are the most significant economic institution in the pastoral society of Afghanistan is therefore relevant and the point that these could leverage income growth and livelihood support in a situation of institutional vacuum also holds good. The role of agricultural cooperative as an “institution” is expected to greatly fulfill this structural gap in Afghanistan and assumes a much greater significance for the country’s targeted development initiative.

Before the last 3-4 decades of civil war, it is true that the agricultural cooperatives had played some role in rural areas. The cooperative farmers had received support to manage their agricultural products for domestic consumption and even to export to some foreign markets. Cooperatives used to provide inputs to farmers for agricultural production, marketing support and credit at lower interest rate, besides supporting them with agricultural equipment and farm mechanization. However, during the war period, the cooperative movement started facing problems, the farmers did not even engage themselves as cooperative members, while seeing that cooperative spirit was declining, individual farmers started conducting their business individually. At the same time, the government support in terms of providing production inputs, marketing support and credit facilities got withdrawn. The ethos of collective action in the village society was disturbed. For example, the Afghan rural society had traditionally maintained a social norm of community participation, locally known as *Hashar*, through which voluntary labor used to be contributed by the villagers for specific need of a particular family, which when needed, was extended to promote social as well as community infrastructure projects for use of the villagers, but without any monetary consideration (a detailed description of this system is provided in Chapter 3). The overriding consideration in those days was mutual cooperation, which enhanced social bonding and inter-dependence among resident villagers. Tragically, civil society was heavily affected by the sustained civil war, which destroyed the age-old social norms and values that were prevalent in the orthodox society. Individualism made rapid inroads into the social system, while collectivism was relegated to nowhere. This has had a telling effect on the cooperative institutions in particular and social values in general.

After 2001, while a new chapter was opened up in the political and economic system of the country, some efforts have been made by the national government and international organizations to rebuild available cooperatives and establish new agricultural cooperatives throughout the country. However, the way the international organizations and the government of Afghanistan supported the cooperatives did not appear to be sustainable, because these un-strategized methods changed the cooperatives to charity organizations. There was no clear perspective and long term goal to develop them as self-sustainable rural institutions for greater benefit of the society. It may not be out of place to mention that the farmers had developed a habit of expecting something from these cooperatives as they started looking upon as charity organizations. The cooperatives had registered themselves as multipurpose cooperatives, perhaps offering a wider scope for accepting diversified aid but without any business oriented plan. This is a paradox where diversified aid does not appear to make any difference in the society.

Currently, there are moves towards reconstruction of the agricultural cooperative system. But empirical evidence based on scientific research on matters related to baseline information on cooperative governance, quality of such governance, stakeholders' approach towards cooperatives and evaluation of their benefits are virtually non-existent. There is no specific business oriented model for use of the farmers which could motivate them to adopt an effective cooperative model of doing business and thus influence their incomes and livelihood.

The motivation for the present research emanates from this perspective, wherein the relevant issues are proposed to be probed with academic rigor on the one hand, while on the other hand, they are tailored towards meeting the development perspective of the country. Through the present research an attempt is made to study the conditions of the agricultural cooperatives from the point of view of Governance, Stakeholder Analysis and Foreign Aid, so as to explore a possible alternative model of productive investment. This could possibly be an exploratory development alternative in the context of Afghanistan that the present research is focusing on, albeit modestly.

This chapter is organized as follows. The next two sections set up the objectives of this research and makes a crisp statement of the underlying problem, respectively. While section 4 puts down the main hypotheses of this research, the next one attempts to develop a conceptual framework to integrate the views expressed in this dissertation. The last three sections describe the methodology and scope of this exercise, its significance and the organization of this study, respectively.

Section 1.2: Objectives

The main objective of this thesis is to analyze, both theoretically and empirically, the condition of

governance structure in agricultural cooperatives, to understand the cooperatives from the viewpoint of their stakeholders and also to study the role of foreign aid into the cooperatives in the current context of Afghan agriculture, so as to evolve a suitable governance structure to sustain the Afghan agricultural cooperatives. Emphasis is placed on identifying the success factors under macroeconomic perspective of the farm economy, keeping in mind interdependence of various economic activities such as production, distribution of farm inputs and marketing of farm products. The ultimate goal is to identify solutions in terms of a better governance of the Afghan agricultural cooperatives, which will make them robust thus avoiding large-scale failure of such organizations. The outcome of the present research is intended to lead to certain specific action points that needs to be considered by the stakeholders including the Government and the political machinery as Coop reforms for the developing the agricultural coops in Afghanistan. The research efforts therefore fall under the ambit of Action Research for achieving specific social and economic goals benefitting the large majority of the poor and impoverished farmers who are resources - poor, face infrastructural debility, yet they are hard -working and manage to survive under extreme climatic aberrations, and needing much desired institutional support for their livelihood and welfare.

Section 1.3: Statement of the Problem

As mentioned earlier, the need for rebuilding of the economy have widely been discussed, debated, alternative options evaluated and consensus arrived. There is however one specific path that could be an entry point is the commercialization of agriculture and drive for agriculture growth. There cannot be a second opinion on this broad strategy as avowed path towards agricultural prosperity, but the moot point is how to effect such realization in an economy which is handicapped at all possible fronts, and more significantly, there is no benchmark to curve out an entry point in the journey to development path. Given great vacuum in development experiences of Afghanistan, caused by sustained war and subsequent trauma that the citizens have passed through, it required some bold policy directions regarding developing appropriate institutional framework duly supported by all stakeholder through forward and backward linkages.

Market led growth was next to impossible in the short run in Afghanistan under the backdrop of completely decimated economic structure, legal and institutional framework, infrastructural debility and near absence of facilitating economic agents, over and above not so friendly across the border policy for export led growth, developing internally promoted collective organizations was one of the options that had proved to be one of the sustainable models of development and also which have had fairly established pre- war legacy of development. Since war had completely devastated these institutions and successive rulers had used these institutions differently, even the policy of the transitional national

government to use coops as conduit for channelizing foreign aid have put the organizational governance structure of the coop in completely different gear, alongside neutralizing stakeholder participation in coop, the present research has been designed to study these issues from a comprehensive perspective to understand the problems and identify vacuum that can be addressed through policy support and participative actions. Therefore, the research problems emanate from the felt need of the country to build a set of agricultural coop institutions through intervention in their governance structure and creating conditions for stakeholder participation through the collection action process and enable the government to back them up through legal and other provisions. It may be noted that the governance structure encompasses a broad canvas of legal provision, amendment in the constitution, organizational reform, coop institutions for training, education and capacity building, bye laws, monitoring and feedback, ensuring stakeholder cooperation and support and propagating the philosophy of coop as a way of life for agricultural growth. So, through an effective governance structure, both supply side provisions and demand side services are attempted to be brought under convergence so that the institutional structure is strengthened to serve the farmer members in a better way.

Therefore, it is to be acknowledged that although the problem areas of Afghan agricultural cooperatives of appear to be many, only some of them seem to take precedence over others. The core issues which require serious and rigorous probing at this stage seem to be the following:

1. What types of cooperatives are most suited in the current socio-economic conditions of Afghanistan?
2. What would be the requirements in terms of governance structure, stakeholder cooperation and effective utilization of foreign aid so as to achieve cooperative success?
3. Which factors are constraining smooth functioning of agricultural cooperatives Afghanistan?
4. Which broad strategy should Afghanistan pursue to strengthen its cooperative structure?

While toying with these above-stated issues as well as many other marginal/fringe issues, and after having several rounds of enlightening consultations with the distinguished faculty at the Department of Economics and Politics, Sup-Agro Montpellier, the author felt convinced that he should pursue his investigations into the following fundamental and structural issues of Afghan cooperatives:

- Cooperative Governance could be the broad area for his investigation;
- The related area of the nature and extent of stakeholder participation could be another appropriate angle of scientific investigation; and third,
- Another important line of investigation could be to find out why Afghan cooperatives are not

becoming sustainable despite many of them having received considerable amount of external aid and support since 2002.

In view of the above line of thinking, the author decided to develop a comparative perspective between the existing guidelines on promotion of cooperatives and the best practices suggested in the current literature as well as by international promotional agencies like ICA, ILO etc., on the one hand, and what is actually going on in Afghan agricultural cooperatives at the ground level, on the other, as a strategy to resolve the research problem.

Section 1.4: Research Hypotheses

Preliminary probe into the existing literature threw to the author several testable hypotheses, which provided early but useful handles in his quest for a deeper probe into the problem. These hypotheses are:

H1: Smooth flow of information to various stakeholders, perfect coordination across the decision makers and implementing agencies, and effective use of a suitable forum for resolution of conflicts across stakeholders, which constitute the critical factors of a governance structure to ensure success of an organization, seem to be missing in the Afghan context.

H2: The stakeholders of Afghan agricultural cooperatives have low attachment with their cooperatives.

H3: Foreign aid isn't properly utilized to make the agricultural cooperatives sustainable.

Section 1.5: Conceptual Framework

The conceptual framework of this dissertation hinges on building a bridge between stakeholder cooperation and cooperative governance through a collective action route, so as to make cooperatives operational and effective in reality. So, it starts with identification and classification of all types of stakeholders – whether internal/external to the organization or whether they make direct/indirect contribution to the functioning of the organization. Naturally, the roles and contributions of different stakeholders need to be appreciated before they are dragged into a collective action process – partly through law, rules, regulations, customs and traditions, but also partly through voluntary efforts and inducements designed by grass root leaders. So, the essential contribution of this dissertation is to provide this linkage between stakeholder and collective action theories if a good governance structure has to be evolved.

A cooperative form of organization being looked upon as an appropriate mix between association and

enterprise properties, rather than a mere profit-maximization format of an organization, attaining the goals of a cooperative is far more difficult proposition than that for a private business. Moreover, the celebrated cooperative principles which constitute cooperative organizations' distinctive identity, have made cooperative success dependent on support from a wider spectrum of stakeholders from both within and outside of a cooperative organization irrespective of whether their cooperative inputs directly or only indirectly influence the cooperative's functioning. So, to identify the sources of success/failure of a cooperative organization, one needs not only to identify but also to evaluate the roles of its direct/indirect as well as internal/external stakeholders.

To draw a demarcation line between direct and indirect stakeholders, one needs to understand following Wallis and North (1986) laid principles of the transformation process that takes place in a cooperative form of business. In a traditional producers' cooperative, typically engaged in only pooling and marketing of individual farmer-members' produce, it is only the member-patrons' contribution in terms of their supply of produce, the Board of Directors' services, the services of employees and professional management, which enter directly into the transformation process enabling the farmers' produce (maybe only after sorting and grading, and no further processing, as in primary cooperatives) to enter the market. However, a lot of indirect supporting services like internal auditor's services, the security guards' services etc. don't directly enter into the physical process of transformation between inputs and output. At the same time, government regulatory services, external auditors' services, banking and insurance services etc., which too are in the nature of indirect inputs, comes from outside of the organization. Some direct inputs like complementary order supplies or services like electricity, technology, innovation and research, education, training and extension ¹, in spite of those inputs directly entering into the transformation process, may come from outside of the organization, unless and until those suppliers are taken on board within the organization (i.e., unless and until they cease to be standing in 'vendor' relationship to the organization). This basic idea behind demarcation between internal vs. external and direct vs. indirect stakeholders is captured in a 2x2 framework to classify all stakeholders for a primary agricultural cooperative in Table 1.2 below.

¹ Technology, education, training, research and extension being embodied in machines and human capital enter directly into the transformation activities.

Table 1. 2: 2x2 Classification of a Primary Agricultural Cooperative's Stakeholders

Column classification →	Internal	External
Row classification ↓		
Direct	Farmers (patron-members), Board members, Employees, Management	Order suppliers, direct service providers (e.g., suppliers of electricity, repair & maintenance, technology, education, research & training, extension, marketing) ²
Indirect	Internal auditors, security services	Regulatory and facilitating services, financial services (banking, credit & insurance), advocacy services – e.g., from community & groups.

Moreover, a cooperative organization having a very broad societal focus and responsibility unlike a typical IOF, the former can't be judged merely in terms of an objective and scalar parameter like 'efficiency', as highlighted by Porter and Scully (1987). A relatively more subjective element like efficacy, equity, satisfaction, sustainability invariably enters in judging cooperative performance as compared to private corporate performance. As a result, stakeholder analysis based on the above-stated 2x2 classification of stakeholders takes a central stage in a discussion on cooperative governance. Keeping this central point at the back of the mind, the current dissertation is designed and conducted. However, in view of the shattered conditions of the war-ravaged Afghan economy, performing a rigorous empirical exercise to firmly establish the essential message of this dissertation would in all probability remain a far cry – as an honest and sincere research must admit.

Section 1.6: Methodology and Scope of the Study

Events that followed in formulating research methodology

Before evolving an appropriate methodology commensurate with the conditions prevailing in Afghanistan, the present research has evolved through a process which requires elaboration. The researcher has been associated with the University since 2015, the first year of the inception of research activities, which has been completed by end 2017. During the first year (2015), the University had constituted a Steering Committee for the thesis, which comprised of Director of the research and 4 more members drawn from different institutes. The profile of the members in the steering committee was diversified wherein a vast canvas was thrown open for preliminary research investigation. The committee suggested for extensive literature review on a few areas like problems and prospects for

² As a cooperative becomes more diversified – for example, in a multipurpose cooperative, or when it moves up vertically as in secondary and tertiary cooperatives, many direct and indirect support services like financial services, marketing, education, training & research may be internalized, that is, internally provided, so that the distinction between direct and indirect or internal and external may get blurred.

development of agricultural cooperatives in Afghanistan, social conflicts, collective actions and related theories and how they could be connected with agricultural cooperatives. Large body of literature review was conducted, summarized and shared with the steering committee members. During the yearend review, it was found that the Theory of Collective Actions could not be adequately connected with the present state of conditions prevailing in Afghanistan for want of credible data and information, as also due to absence of any collective action in the organization of rural enterprises. However, rich experiences were gathered through large volume of literature survey and related readings and shared with the concerned members of the steering committee. The good part of the efforts that the researcher achieved was that it was suggested that the research needs to be focused on understanding Afghanistan agricultural situations in the context of increased role that the agricultural cooperatives as rural institutions would play to drive agricultural growth. According to the wisdom of the faculty advisor, since markets in Afghanistan had not developed or pre- existed, ensuring fair price to the primary agricultural producers to overcome marketing bottleneck was the driving point towards focusing on the agricultural cooperatives. This was the important milestone that was achieved during the first year of the research engagement.

The year of 2016 was continued with literature survey, preparing synopsis of the relevant research, and a review of the past work done by the researcher with the members of the steering committee. At this point, the researcher felt that working on Theory of Collection Action, under the present condition of Afghanistan, would be a far cry, which was realized by the committee members, and thus it was suggested that the research focus be oriented towards Theory of Cooperative Governance. Accordingly, references were searched from the University and department libraries and also from the other domain, and a second year review with the steering committee endorsed the outcome of review for a research on the issues of Cooperative Governance.

It is worthwhile, at this stage, to underscore the point that although the focus of the present research is on Cooperative Governance, researches on The Theory of Collective Action remains as one of the relevant agenda for future research area, which could be pursued by some young researchers from Afghanistan at a later date when there would be material, data and information in this area to probe the point. Therefore, the present research does appreciate the relevance of the issue, and creates scope for the next generation researcher for further investigation, while continuing with the focus of the present research in Cooperative Governance.

In 2017, the research was further crystalized with a focus on firming up of different hypotheses taking into considerations lessons learnt from the literature survey, contemporary studies across the globe, as also tailoring the hypotheses in the context of Afghanistan which, as mentioned earlier, portrayed a

picture that was different from other developing countries due to external aggression and prolonged socio political instabilities affecting internal mechanism of creating a favorable condition for institutional development for agricultural growth. Continuing with the above point, it needs to be mentioned that foreign aid had become very pervasive in all spheres of national governance and development and the agricultural cooperatives as institutions were not insulated from such phenomenon and therefore the study was broad based by their inclusion in the research agenda. However, it must be taken into account that the present researcher has been associated with the Government of Afghanistan in a responsible position which was an added advantage in the understanding of how different government policies are formulated keeping foreign aid as supply line of scarce resource for development purposes.

The researcher therefore spent a good part of his research time in Kabul and other places of Afghanistan in 2017 in collecting data and gathering information from different stakeholders, which was collated and analyzed and relevant information have been presented in the thesis. The research Advisor has been extremely cooperative in clarifying many technical cum theoretical ambiguities in course of the progress of research work from a distant location of France, during the odd hours of the day, without affecting the progress.

Methodological highlights of the research

The methodology adopted for the present research is largely qualitative in content and approach, and limited in quantitative focus, though the importance of both forms of investigations is admittedly relevant under different contexts. In other words, the qualitative approach has been integrated with quantitative data, wherever required, and inferences have been drawn accordingly. It is focused towards identifying various parameters that are associated with the collective action process invariably being followed in a cooperative form of organization. Following the same spirit of collective action as captured in the writings of Olson (1965, 1982), Hirschman (1970) and Ostrom (1990), discussions have been carried out with different stakeholders including farmer-members, Board of Directors (BOD), cooperative managers, DAIL and DACD officials as well as MAIL authority including Deputy Minister in charge of technical affair. An exclusive 4 day workshop among all officers and staff have been conducted to understand their internal issues from the supply side of provisions that the DACD as an institution is supposed to provide to the agriculture cooperatives for promoting and sustaining their activities including taking care of training and capacity building and awareness program about cooperative development. The officials of Ministry of Finance, Ministry of Commerce, different departments under MAIL (private sector development, Central Statistical Organization, Directorate of Horticulture, FCOMAIL, and Directorate of Livestock Development etc), Ministry of Rural

Rehabilitation and Rural Development have been contacted. A few organizations engaged in providing institutional credit, some donors (notably FAO, IFAD, CARD F, *Kuchi* Development program etc), NGOs have also been contacted to elicit their views relating to subject of research.

When it was clear that no baseline data is at all available in this war-shattered economy, nor is it easy to access interior villages and win over enough confidence of the villagers to access quantitative data from cooperative records or through individual interviews, this dissertation nevertheless gathered enough courage to draw a small sample and seek at least qualitative response from cooperative members and BOD members, using semi structured questionnaires, focus group discussions, in-depth probing of specific issues and personal observations to get some feel for the ground reality. Looked from that angle, probably the first baseline data, though not large-sized, nor based on any rigorous random sampling design, is thus created by this study to provide insights or intuitions about functioning of agricultural cooperatives in Afghanistan. To understand the condition of the cooperatives from a closer perspective, 5 case studies have been conducted out of which three cooperatives were presently in operation and two were closed down. These five case study cooperatives were chosen in such a manner that they were spread over provinces and also representing different commodity profiles. However, it is to be noted that given limited secondary data available from the DACD on the current status of the registered coops in Afghanistan, the coops could not be stratified by any a priori criteria due to various operational limitations on ground, which is rather a typical constraint of selection issue in Afghanistan (country under conflict, geographical inaccessibility, physical safety etc). It was also found that many social science research in Afghanistan had also noted these constraints while carrying out their field researches. In-depth interviews were conducted following structured questionnaire, but at the time of interview and follow up discussions many associated issues were brought to notice which were duly appreciated and understood enhancing finer nuances of the cooperative enterprises.

For a better understanding of the general situation of the agricultural cooperatives, this research has also relied on secondary data to a significant extent by accessing data from various government sources like Ministry of Finance, Ministry of Agriculture, Irrigation and Livestock (MAIL), Ministry of Rehabilitation and Rural Development, Central Statistical Organization (CSO), Provincial Governments, external donor agencies, NGOs etc. A brief description of the different sources contacted and for capturing different information areas and protocol followed and how they are connected with the objectives of the research are described below. Data and information have been gathered over phased manner following research protocol, sequenced in a manner that enabled articulation of information and validation through different research modules and tools developed exclusively for the research, pre tested and finalized suiting to the locale of the study. This methodology was very useful

—as some unintended gaps were overcome through successive rounds of investigation and following flexible approach at different points of time during June to September 2017.

Table 1. 3: Data collection approach and the propose served as input to research methodology

INFORMATION AREAS	SOURCES REFERRED	PROTOCOL FOLLOWED	PURPOSES SERVED AS INPUT TO RESEARCH METHODOLOGY
(A) LITERATURE REVIEW (SECONDARY RESEARCH)			
COOPERATIVES AND ITS PRINCIPLES	University Library	Relevant documents perused.	As starting point, literature review opened up new vistas in the thought process to conceptualize the principal themes of research. Different researchers have looked at the issues, analyzed and concluded, and what lessons they brought on the table for the research ecosystems were the key learnings that were useful for the present research.
ICA/ILO GUIDELINES ON COOPERATIVES	Department Library, FCOMAIL, Kabul	Significant observations noted, summarized and shared among the committee members.	Significantly, how the academic community have attempted to work on developing these theories from their empirical studies and what are the important facets of these theoretical developments of Collective Action, Cooperative Governance, and Foreign Aid and what are their principal observations were the significant lessons from secondary research. The knowledge and wisdom gained from these references ignited the thought process to connect the context of Afghanistan, the locale of the study.
THEORY OF COLLECTIVE ACTION	University Library Kabul,	Trailing of references have been done from multiple sources with the help of individual reading and faculty support.	A framework for conducting the proposed research was therefore evolved based on extensive literature survey, extracting highlights of these researches and discussing with research steering committee members and gaining clarity on the prospective investigation.
THEORY OF COOPERATIVE GOVERNANCE	Government Reports, Manuscript	Some of the important quotations are reproduced as it is to maintain the sanctity, and without dilution of meaning.	Enhanced understanding of the governance model in collective organization of different types of coop across the World

INFORMATION AREAS	SOURCES REFERRED	PROTOCOL FOLLOWED	PURPOSES SERVED AS INPUT TO RESEARCH METHODOLOGY
THEORY OF STAKEHOLDERS	Internet Domain,	Understanding the stakeholder model in collective organization, especially Internal & external and Direct and Indirect stakeholders	Roles and responsibilities of the direct and indirect stakeholders understood and used appropriately in subsequent Chapters.
FOREIGN AID AND INTERNAL GOVERNANCE	Technical Journals, World Bank publications, Research Reports, IRoGA manuscripts	Perused and important observations and findings noted, which were related during field survey	Wisdom gathered are appropriately referenced in the thesis.
RESEARCH ARTICLES/PUBLISHED & UNPUBLISHED REPORTS	Technical Journals,	Perused and context understood	Used appropriately in the body of the manuscript
INTERNAL FILES, COMMUNICATIONS, ARCHIVAL INSIGHTS ON HISTORY OF COOP DEVELOPMENT IN AFGHANISTAN	IRoGA IRoGA	Understanding the context Understanding the context	Wisdom gathered are appropriately referenced in the thesis. Enhancing Quality of understanding of the context of Afghanistan
(B) SECONDARY DATA (QUANTITATIVE)			
NO OF COMMUNITY DEVELOPMENT COUNCILS	Ministry of Rural Rehabilitation and Rural Development	Data collected, analyzed and referenced in the dissertation	Keeping the theoretical knowledge at the back of mind, the next part of the investigation was to prepare a framework of understanding of the macroeconomic scenario of Afghanistan. This was necessary as resource endowments of the country from the point of view of natural resource, economic activities, demographic characteristics, agricultural development issues especially from the point of view of primary production and marketing institutions, activities allied to agriculture, horticulture and other development points are intended to highlight the present state of affairs and potential for future growth.
AGRO ECOLOGICAL ZONE	University of Kabul Library, MAIL, Published and	Perused, observations noted and needful data gathered	The macroeconomic canvas, upon analysis of data and trend in production, also highlighted nature of agricultural production, scale of production, fragmented or organized nature of production.

INFORMATION AREAS	SOURCES REFERRED	PROTOCOL FOLLOWED	PURPOSES SERVED AS INPUT TO RESEARCH METHODOLOGY
	unpublished reports (USDA, IFAD etc)		
GEOGRAPHICAL AREA, POPULATION, DENSITY OF POPULATION, URBANIZATION	Afghanistan Statistical Year Book 2016-17	Statistical data collected and used for the research	Helped in understanding of macroeconomic context, marketing issues, and scope for development of collectives for addressing marketing issues of the rural produces.
SOCIO ECONOMIC INDICATORS	Afghanistan Statistical Year Book 2016-17, NRVA (2011-12)	Anecdotal report, Mimeograph.	It was also important that these economic activities would eventually impact growth and development of collection action enterprises including cooperatives and mutual for agricultural and allied sector growth to support the large majority of the small and resource poor farmers.
AGRICULTURE & LAND USE	Afghanistan Statistical Year Book 2016-17, NRVA (2011-12)	Analysis and Interpretation of data—current and potential.	Sustainable economic development has long been eluded in Afghanistan and these cooperative institutions would need to rise up to the occasion to deliver much needed support to the framers for a viable economic growth and hence a thorough analysis and their review assumed significance.
IRRIGATION	Afghanistan Statistical Year Book 2016-17, NRVA (2011-12)	Statistical data collected, trend observed and used for the research	Sustainable agriculture development is possible through efficient use of irrigation source and hence a thorough analysis and their review is necessary.
CROPPING PATTERN	Afghanistan Statistical Year Book 2016-17, NRVA (2011-12)	Statistical data collected, trend observed and used for the research	Cropping Pattern would show possibility of agricultural diversification and hence a thorough analysis and their review assumed significance.
CROP WISE PRODUCTION	Afghanistan Statistical Year Book 2016-17	Statistical data collected, trend observed and used for the research	Crop wise production is one of the important parameters through which status of agricultural development is measured and hence a thorough analysis and their review is necessary.
CROP WISE PRODUCTIVITY	Afghanistan Statistical Year Book 2016-17	Statistical data collected, trend observed and used for the research	Crop productivity is one of the important parameters through which status of agricultural development is measured and hence a thorough analysis and their review is necessary.

INFORMATION AREAS	SOURCES REFERRED	PROTOCOL FOLLOWED	PURPOSES SERVED AS INPUT TO RESEARCH METHODOLOGY
FRUIT PRODUCTION	Afghanistan Statistical Year Book 2016-17	Statistical data collected, trend observed and used for the research	For Afghanistan, fruit crops are very significant displaying status of agricultural development and hence a thorough analysis and their review is necessary.
MARKETING OF HORTICULTURE	Afghanistan Statistical Year Book 2016-17, Research Reports, University of Kabul	Statistical data collected, trend observed and used for the research	For Afghanistan, marketing and export of horticulture products are very necessary and hence a thorough analysis and their review is necessary.
LIVESTOCK	Afghanistan Statistical Year Book 2016-17, NRVA (2011-12), MAIL	Statistical data collected, trend observed and used for the research	For Afghanistan, livestock production is critical for supplementing agricultural income and livelihood and hence a thorough analysis and their review is necessary.
INFRASTRUCTURAL BOTTLENECK	Afghanistan Statistical Year Book 2016-17, NRVA (2011-12),	Statistical and non-statistical data and information gathered and used in research	In Afghanistan, infrastructural deficiency is very apparent. It applies to physical and economic infrastructure. Therefore, analysis of the same and how they impact economic development was necessary to relate different phenomenon with infrastructure status
RURAL INDEBTEDNESS	Research Reports, USDA, Manuscripts, NRVA (2011-12)	Data and knowledge gathered and used in research	In Afghanistan, deficiency in economic infrastructure is too obvious, affecting growth. Therefore, an analysis of the same was necessary to understand the extent of problems affecting different economic agents
NO OF AGRICULTURE COOP	DACD, Afghanistan Statistical Year Book 2016-17	Data and information gathered and used	This showed growth of coop over the years and how this growth has been affected with the change in coop policy (Law, Amendment in Coop Law)
COOP MEMBERSHIP	DACD, Afghanistan Statistical Year Book 2016-17	Data and information gathered and used	This showed growth of coop over the years in terms of membership how this has been affected with the change in coop policy (Law, Amendment in Coop Law)
CAPITAL CONTRIBUTION IN THE COOP	DACD, Afghanistan Statistical Year Book 2016-17	Data and information gathered and used	This showed growth of coop in terms of capital contribution over the years and how this has been impacted with the change in coop policy (Law, Amendment in Coop Law)

Thus this research is intended to contribute to an understanding of the overall governance of local agricultural cooperatives with focus on unfolding the effect of these cooperatives on farm income, marketing system and the major constraints in the functioning of agricultural cooperatives. At the same time, this thesis is designed to provide an opportunity to examine if foreign aid has had any impact on the agriculture sector, a vexed issue more often than not debated in policy circles of the government.

For a theoretical understanding of the different methods of data collection (both quantitative and qualitative in social science research), a detail note has been presented at the end of the dissertation. Similarly, summarized observations of some of the literature surveys that the present researcher has completed, which could not be accommodated in the main body of the text, while associated with the University in person as part of requirement of a PhD program, has also been presented as end dissertation note.

Section 1.7: Significance of the Study

Notwithstanding the challenges that the present research has faced, given the current context of the local study area and also given the fact that no prima facie evidence exists, a modest beginning is made so that the outcome of the research would serve some useful purposes – at least from the viewpoint of meeting the academic requirements of setting up of a benchmark knowledge base for the agricultural cooperatives, and also providing some policy inputs to the government. Though it may not augur well, but the fact of the matter is that there has not been any academic or policy data to understand the ills of Afghan cooperatives. Looked from this angle, the present research could be the first of its kind to provide a theoretical construct into this area which can be tested through several proposed hypotheses and re-validation of the same can be achieved following scientific principles of research in the future. It is also intended to fill in the vacuum that exists in this sector and create a platform for further research and analytics for the subsequent generation to continually enrich this important sub sector of Afghan national economy. From the point of view of providing macroeconomic growth stimuli to the national economy, the relevance of the study in providing inputs for agrarian and agricultural cooperative reform agenda of the national government is enormous. Therefore, the utility of the study from the perspective of decision making bodies including political leadership in expediting the cooperative reform agenda in Afghanistan need not be overstated. Given this implicit utility, apart from academic requirements, the research purpose has been tailored towards fulfilling analytical as well as policy level developmental inputs in a comprehensive manner (both from supply side as well as from demand side requirements)

so that the outcome of the present research bring some tangible benefits to the society besides creating opportunities for the academic fraternity to arouse ideas for further research. From the institutional side, the research is expected to highlight direct and indirect roles that the various departments of MAIL and other Ministries of the Government must play in matters relating to cooperatives, given the fact that this research also pinpoints the shortcomings in their functioning. So, the research outputs are focused towards coming out certain Action Research points that are to be implemented taking all the stakeholders on board where all actors are supposed to perform their designated responsibilities for a comprehensive development of the cooperatives. This is the added significance of the present dissertation wherein Action items get precedence over pure theoretical research.

Section 1.8: Organization of the Research

As mentioned earlier, given the fact that Afghanistan has already committed to rural and agricultural development through the cooperative route, the main thrust of this dissertation is to highlight the importance of cooperative governance, while attempting to bring out a detailed roadmap for suitably reforming cooperative governance structure by placing greater emphasis on stakeholder participation and lesser dependence on foreign aid. Accordingly, this dissertation manuscript is designed to be presented in a logical sequence of eight chapters, as described below. However, in a post facto perusal of all chapters it was found that the dissertation could better be organized in three broad parts and the concerned chapters be clubbed under each of these 3 parts for smooth flow of readability.

INTRODUCTION

Chapter 1 (Introduction) not only presents a background to this research by providing a historical perspective to the evolution of cooperatives in Afghanistan, but also sets up its objectives, a statement of the problem, the major hypotheses, the conceptual framework, the study methodology and scope, besides spelling out its significance.

PART 1: CONCEPTUAL ISSUES ASSOCIATED WITH COOPERATIVES AND THEIR GOVERNANCE

Chapter 2 (Review of Literature) highlights evolution of the cooperative form of business organization together with its theory and multiple perspectives. It demonstrates that sound cooperative governance, stakeholder cooperation and cooperative autonomy are necessary pre-conditions for cooperative success. Civil war has been one of the most important phenomenon of Afghanistan affecting every sphere of the society, and keeping this in the background this chapter also introduces a

section on Afghan civil war and causes of civil war from the point of view economic and natural resource management points of view. Besides, this chapter also analyses the phenomenon of foreign aid in Afghanistan and how efficacy of such aid in facilitating development and sustainability of such development possibility.

PART 2: STRIKING FEATURES OF AFGHAN AGRICULTURE, COOPERATIVE HISTORY AND EMEGENCE OF COOP LEGAL FRAMEWORK

Chapter 3 (Striking Features of Afghanistan and its Agriculture) attempts to bring out the second-best characters (in terms of various imperfections) of the Afghan economy, in general, and its predominant agriculture, in particular, in terms of topography, demography, rainfall, temperature, irrigation, landholding, land tenure, cropping pattern, production, productivity, trade, poverty and agricultural infrastructure including roads, communication, educational, credit and marketing networks. As this situation gives rise to widespread market failure problem for a war-ravaged economy, it shows how building up grass root cooperatives becomes the mainstay of the Afghan economic development in the eyes of the national government as well as its international supporters.

Chapter 4 (History and Status of Afghan Agricultural Cooperatives) brings out the roots of cooperation in the traditional Afghan society together with the reasons for ups and downs in the growth of cooperative form of business during the last 3-4 decades. It sets the stage for critically analyzing and placing on a solid and rigorous platform the Afghan government's current strategy of rural development through the cooperative route in the residual chapters.

Chapter 5 (Evolution of the Legal Framework for Afghan Cooperatives) examines the provisions of the Draft Agricultural Cooperative Law of August, 2013 in the light of the ILO guidelines for developing cooperative legislation in the member countries, which is aimed at maximizing cooperative effectiveness through establishment of a suitable governance structure. It also points out the striking deviations together with their implications for possible future reforms.

PART 3: CRTITICAL REVIEW OF FUNCTIONING OF AFGHAN AGRICULTURE COOPERATIVES AND STRATEGIES FOR COOPERATIVE DEVELOPMENT

Chapter 6 (Case Studies and Analysis of Sample Data on Afghan Agricultural Cooperatives) has made a modest attempt to undertake selected case studies of five accessible cooperatives (covering both relatively well-functioning and weaker units) and collection of a small primary data to understand the principal themes of the investigation – namely, governance, stakeholder involvement and use of foreign

aid, given the fact that conducting comprehensive case studies and collection of field based primary data using a rigorous sample design is next to impossible in the current law and order situation of Afghanistan - especially in its deeper rural pockets.

Chapter 7 (Further Analysis for Evolution of Comprehensive Strategies for Afghan Agricultural Cooperative Development) attempts to set the agenda for a comprehensive cooperative sector reforms based on discussion, analysis and findings of the preceding chapters. Beginning with a SWOT analysis of Afghan Agricultural Cooperatives, it highlights the limitations of the current governance in terms of its both internal and external institutional structure, inclusive of regulation of cooperative finance, taxation and foreign aid, and the facilitating service of the country's capacity building institutions.

Chapter 8 (Conclusions and Strategies for a Way Forward) not only summarizes the main findings and conclusions (inclusive of limitations) of preceding chapters, but also attempts to spell out a comprehensive agenda of cooperative sector reforms through necessary tinkering in its both internal and external governance structure.

PART 1:

COMCEPTUAL ISSUES ASSOCIATED WITH COOPERATIVES AND THEIR GOVERNANCE

This part of the thesis discusses the attributes of a cooperative form of organization which combines both democratic association and enterprise characteristics to serve the interests of the user members through provisions of various economic, technological, training and value additive services for the members to improve their production and productivity and services. There are different typologies of agricultural cooperatives which have evolved under different contexts all over the World, a review of such practices and typologies are examined with a view to connecting them in the context of the present locale of the study. Cooperative Governance as a subject of academic research has drawn attention of political scientists, economists, sociologists and cooperative sympathizer as well as policy makes and bureaucrats and there is a huge body of literature available, relevant to different contexts and ecosystems, which are carefully analyzed and inferences noted with a view to relating them at a later stage of the study. Moreover, these reviews facilitate a clear understanding on the main theme of research from the point of view of learnings and insightful observations which create a platform for potential research in the context of Afghanistan. This part of the research therefore sets the research agenda rolling for further evidence which are documented through the successive chapters of this thesis.



CHAPTER 2

Review of Literature



Section 2.1: Introduction

Given the fact that the war-ravaged country of Afghanistan has committed itself to sustainable rural and agricultural development through the cooperative route, the present dissertation, seeing lackluster performance of agricultural cooperatives in the post-conflict era, decided to attempt to reverse the trend at least in terms of intellectual discourse. With this end in view, it decided to highlight the importance of cooperative governance, while attempting to bring out a detailed roadmap for suitably reforming cooperative governance structure together with the framework of stakeholder participation and progressively lesser dependence but greater productivity of foreign aid to preserve cooperative independence and autonomy. Accordingly, the presented chapter is intended to provide a crisp but critical review of the existing literature on evolution of the cooperative mode of business organization, cooperative principles and their implications, the prevailing traditions and typology of cooperatives, evolution of cooperative theory together with its strengths and weaknesses, the importance of cooperative governance and stakeholder participation, and of foreign aid – all with reference to the current socio-economic conditions of the Afghan economy. It proposes to take up these matters in the sections which follow, using the same chronological order.

Section 2.2: Brief history of evolution of the cooperative form of organization

While tracing the history of the cooperative form of business, one needs to start from the notion of ‘cooperation’, which is a third and fairly common mode of human interaction, the other two being ‘conflict’ and ‘competition’, where the resulting forces are often opposed and at best parallel. In cooperation, on the other hand, the resulting forces are at least parallel and hopefully convergent, that is, mutually re-enforcing under favorable conditions, as pointed out by Groves (1985). In today’s world, we often hear about cooperation between governments, businesses, universities, groups etc., the underlying idea being to achieve some common goals together, which can’t be achieved otherwise. But it is not automatic; it requires conscious efforts to achieve cooperation. So, it is aptly said: “*Co-operation represents a higher calling of mankind, and not all people respond to higher callings. Consequently, co-operatives are not for everyone....*” (ibid, p.14)

Nevertheless, cooperation is much older than any organized movement, as ancient people used to practice in times of hunting for mutual protection. In older records, there are many traces of cooperation in various forms in the Middle East, Europe and Asia, Afghanistan being no exception, as we shall see in Chapter 4 in the context of the Afghan cooperative history. However, cooperative, a specific organizational format for cooperation, is less common. Datta and Elangovan (2004) has summed up in Table 2.1 the contributions of the early scholars, who had tried to formalize the notion of cooperatives,

together with their views.

Table 2. 1 :Early attempts to formalize the notion of cooperatives

Names of Co-operators	Contribution	Views on Co-operation.
Robert Owen, England (1771-1858)	Established co-operative colonies - namely, New Harmony, Orbiston colony, Queenswood or Harmony Hall at New Lanark in England.	Abolished profits for the benefits of the common people by organizing them in the form of association by ending the policy of <i>laissez faire</i> . Looked upon as the father of modern co-operative movement.
Charles Fourier, France (1772-1837)	Organized 'phalansteries' – self- contained communistic colonies having all the facilities for good living in France.	Popularized the principles such as voluntarism, democracy, equality, equity and mutual help. Attempted to transform a wage-earner into co-operative-owner.
Dr.William King, England (1786-1865)	Started the Brighton Co-operative Benevolent Fund Association and the Co-operative Training Association. Published 'Co-operator', a monthly journal in England.	Believed that Union was strength. What one could not do, many might. The workers should work for themselves, not for others, and enjoy the fruits of his labor.
Rochdale Pioneers, England (1844)	Organized a 'consumer store' in 1844 at Toad Lane with 28 co-operators in England.	They evolved certain rules of the game later known as 'principles of co-operation'. It was the first successful attempt of a modern co-operative and the message spread all over the country.
Grundvig, Denmark (1783-1872)	Started adult education program to propagate co-operative ideology among the youth in Denmark.	Highlighted importance of co-operative education for the success of co-operatives, particularly in developing nations inhabited by illiterate and poor masses.
F.W.Raffeißen Germany (1818-1888)	Formed 'rural credit union' in Germany - namely, Flammersfeld Poor Peasants' Relief Society in 1849, Heddesdorf Benevolent Society in 1854 and Loan Society or Village Banks in 1862.	Salient features of the Raiffeisen mode were unlimited liability, moral character of the members, small area, and small value of shares so as to admit all needy people. Loans given only for production purposes. Management should render honorary services, promote creation of strong reserve fund and foundation fund to meet unforeseen losses and strengthen federalism.
Schulze, Germany (1808-1883)	Promoted a society for urban people in 1850 and later in 1852 organized society on co-operative principles. In 1859, organized General Union of German Industrial Societies and continued as its director till his death.	Salient features of his societies: membership open to artisans, workers and middle class people living in towns and cities, limited liability, large area of operation, large loan amount with less repayment period, loan on the security of assets, strong profit motive, high dividend, paid management and concentration on material well-being of members.
G.D.H.Cole, England	Workers' control on co-operatives. Published many books: Economic Planning (1935), A Century of Co-operation (1944), Socialist Economist (1950), History of Socialist	He viewed that co-operatives profited by the growth of trade union and advocated the need for workers' control over the factors of production. The co-operatives should diversify in many areas so as to build the 'Co-operative

Names of Co-operators	Contribution	Views on Co-operation.
	Thought (1953-56). Main contribution is organization of labor class movement and co-operative movement.	Commonwealth’.
Horrace Plunkett, Ireland (1854-1932)	Promoted Irish Agricultural Organization Society in 1894.	Advocated state aid to co-operatives - that the state should act through local co-operatives, handling all produce, credit, aid, and even the flow of ideas through their educational activities.

Source: Winfred and Kulandaiswamy (1980)

However, a consumer co-operative store started by 28 Rochdale pioneers of England in 1844 is believed to be the first successful experiment on co-operatives. Thus, the concept of modern co-operatives is an offshoot of capitalist development – precisely, an outcome of the Industrial Revolution in Europe, and it doesn’t owe its birth to socialist countries, as sometimes misunderstood due to its ideological proximity to socialistic ideas. Capitalist development in Europe following Industrial Revolution brought many radical changes in the society including concentration of wealth in the hands of a few and exploitation of human beings. The knowledge revolution accompanying Industrial Revolution paved the way for organizational innovations – the birth of a co-operative form of business being one such innovation. As pointed out by Datta and Elangovan (2004), there are broadly speaking three main schools of thought on co-operatives so far in history, whose views are summarized in Table 2.2 below.

Following Datta and Elangovan (2004), Table 2.3 below has summarized and reviewed the contributions of early scholars and cooperators, who have contributed to the cooperative movement. A close look at this table displays multiplicity and diversity goals of cooperatives, of which some are

objective, economic and operational, while others are non-economic, subjective and value-loaded. Such lofty and subjective ideals involve not only some element of subjectivity and ambiguity, but also too heavy tasks to be performed and even fully understood by common people in ordinary walks of life. So, it is no surprise that a co-operative form of business is more prone to failure than ‘more tightly defined and individually motivated investor-oriented firms (IOFs)’ (Datta & Elangovan, 2004, p.4).

Table 2. 2: Main Schools of Thought on Co-operation

Main Schools of Thought	Meaning & Objective of Co-operation	Main Proponents
The Co-operative Enterprise School	A voluntary economic unit organized, capitalized and run by members to provide service on cost-to-cost basis, with the objective of advancement of members’ economic interests and maintenance and protection of economic independence of small producers through pooling of resources and thus enjoying economies of large scale production.	Schulze–Delitzsch, Hass, Raiffeisen and Horrace Plunkett.
The Co-operative Commonwealth School	Not merely improving economic position of members within the existing framework, but also replacement of the competitive capitalistic system by one based on mutual co-operation.	Robert Owen, Saint Simon, Charles Fourier, Louis Blank, Ferdinand Lasasalle etc.
The Socialist Co-operative School	An economic and social organization to promote, safeguard and realize the interests and aspirations of the working people, and eventually to transform capitalism into socialism and finally into communism.	Marxist–Leninist theorists including Lenin.

Source: Hajela (1978)

Section 2.3: Cooperative Principles and their Implications

In the Manchester Congress of September, 1995, the International Cooperative Alliance (ICA) for the first time attempted to make a Statement on Co-operative Identity, which provides a formal definition, besides explaining the core values and bringing out the major traditions of co-operatives underlying the Principles of Co-operation. *ICA has defined co-operatives as “an autonomous association of persons united voluntarily to meet their common economic, social, cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise”* (Taimni, 1998, p.56).

This definition pertains to all the five existing traditions of co-operatives - namely, consumers’ co-operatives, credit co-operatives, agricultural producers’ co-operatives, workers’ co-operatives, and service co-operatives. Two features of the cooperative definition deserve special mention. First, its autonomy means independence of the organization of government and private firms. Second, it is an association of persons, not individuals, where the term person can accommodate any legal definition of ‘person’. Moreover, this association is absolutely voluntary, so that members can join and leave at will.

Besides this jointly owned and democratically controlled enterprise must meet common economic, social and cultural needs of its members.

Table 2. 3: Early Scholars and Co-operators Contributing to the Co-operative Movement

Names	Views	Remarks
Holyoake (England)	“Co-operation is a voluntary concert with equitable participation and control among all concerned in any enterprise.”(Calvert, 1959, p.15)	Emphasizing elimination of capitalism by equitable participation of members and controlling of the whole affairs by the members.
Prof. Paul Lambert (Belgium)	“Co-operative society is an enterprise formed and directed by an association of users, applying within itself the rules of democracy and directly intended to serve both its own members and the community as a whole” (Mathur, 1987, p.9).	Indicating that co-operatives should also contribute to development of the community.
C.R.Fay (England)	“Co-operative society is an association for the purpose of joint trading originating among the weak and conducted always in an unselfish spirit, on such terms that all who are prepared to assume the duties of membership, share in its rewards in proportion to the degree in which they make use of their association”.	Co-operative looked upon as an organization of the weak. Also highlighting the economic aspects of co-operation & bringing out nearly all essential features of a modern definition of co-operation.
H.Calvert (India)	Co-operation is a form of organization, wherein persons voluntarily associate together as human beings, on a basis of equality, for the promotion of economic interest of themselves.	Highlighting the economic aspects of co-operation.
Emory S. Bogardus (USA)	A social process of working together towards universally advantageous goals. Among human beings co-operation takes place on four levels of motivation of (1) survival of individual, (2) “getting ahead of the other fellow”, (3) “getting ahead with the other fellow” and (4) mutually helping to build together a more constructive and harmonious society.	Stresses the social aspect of co-operation and the motives for joining co-operatives.
Peter James Warbasse (US)	“Co-operation is a way of life whereby people unite democratically in the spirit of mutual aid to get the largest possible access to the things and services they need” (Warbasse, 1950, p.3).	Spirit of democracy and mutual aid in co-operation highlighted.

Source: Reproduced from Datta & Elangovan (2004), p.5

Unlike profit-making private businesses described in technical terms as investor-oriented firms (IOFs), cooperatives by virtue of their historical origin have strong ethical values, as described in the ICA Statement on Co-operative Identity: *“Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others”* (Taimni, 1998, p.56).

Datta and Elangovan (2004) has made several important observations on cooperative values to bring out their special character and relevance in the context of poor backward countries like Afghanistan.

First, for the first time in history these values are explicitly stated and included though these values were earlier either assumed, or inserted, or otherwise attributed to co-operatives. Second, these values have included self-responsibility alongside self-help. This is important because while the value of self-help is based on the belief that everybody can control his destiny, self-responsibility demands that everyone must do it. Third, by virtue of the value of democratic co-operative governance (i.e., one-member, one-vote), a co-operative empowers its members to influence its direction, actions and operations. Fourth, the value of equality distinguishes a co-operative firm from firms run primarily in the interest of capital, by ensuring for cooperative the members the right of participation, the right to be informed, the right to be heard and the right to be involved in decision-making. Fifth, the value of equity demands equitable treatment of the members with respect to the reward they receive for participation co-operative activities - whether in the form of patronage dividend or reduction in charges. Sixth, solidarity implies not only that a co-operative has responsibility towards the collective interests of members, but also that co-operators and co-operatives everywhere must recognize the commonality of interest irrespective of their diverse goals and contexts. While the values are found in all kinds of organizations, co-operatives have a special tradition of adhering to the values of honesty, openness, social responsibility and caring for others to make them particularly cogent and undeniable within co-operative enterprises.

Against the above-stated backdrop, the ICA Congress, 1995 put forward the cooperative principles as an empowering framework through which co-operatives could grasp their future. These principles constitute the ideas, reflecting the characteristics of co-operatives, which are intended to act as a guiding force to the co-operatives and co-operators in conducting their business. The seven principles adopted by the ICA in 1995 are displayed in Table 2.4 below together with their rationale.

The co-operative principles and values together constitute the true identity of co-operatives and distinguishes them from other forms of organization. It is important to note that these principles are not independent of each other; if one is ignored, all are diminished. While the first three principles are essentially addressing the internal dynamics of a typical co-operative organization, the rest four can be interpreted as attempting to articulate the internal operations vis-à-vis the external world.

Table 2. 4: Cooperative Principles adopted by the ICA in 1995, together with their rationale

Principles	Explanation
1. Open and Voluntary Membership	It means that the individuals should join on their own and be active participants and responsible members with a clear understanding of the values, for which co-operatives stand, and be supportive of those values. The underlying idea is that people cannot be coerced into becoming cooperators. Membership is open without any restriction but the members should be in a position to utilize the services of the society and, if necessary, put a limit to the number of members, the co-operative can effectively serve. These principles assume significant importance in eliminating the incidence of bogus members and bogus societies.
2. Democratic Member Control	This principle affirms the right of members to be actively involved in setting policies and key decision making. While the principle of one-member one-vote is customary in primary co-operatives, systems of proportional voting may be adopted in secondary and tertiary co-operatives to reflect the diversity of interests, size of membership and commitment among the co-operatives involved.
3. Member Economic Participation	The underlying concept is that capital is the servant and not the master of a co-operative organization. However, to make the co-operative more competitive, the earlier restriction on the payment of dividend on capital is removed, but at the same time the principle implies that portion of such benefits should be retained by the co-operatives for collective purposes. It also prescribes equitable distribution of generated surplus on the basis of economic participation by the members.
4. Autonomy and Independence	In most of the countries, the co-operatives are considered as a vehicle for launching the various populist programs. Due to this the excessive interference of the government become inevitable and the autonomy and independence remained as a dream. This new principle sought to emphasize that there should not be any interference from the external agency so that the co-operative become 'member centrality' and ensure 'locus control'.
5. Education, Training and Information	The critical success factors for the co-operatives are the education, training and information. This principle stressed the need for these three factors. The background paper stated that, it means engaging the minds of members, elected leaders, managers and employees to comprehend fully the complexity and richness of co-operative thought and action. If a co-operative wants to be a force to reckon with, not only people must be aware of the concept, but also they must appreciate it and be willing to participate in it.
6. Co-operation among Co-operatives	This principle stressed the need for both vertical and horizontal integration in order to best serve the members by eliminating the middleman in the process.
7. Concern for Community	Grounded in the values of social responsibility and caring for others, this new principle gives articulation to the co-operative interest in making contributions to a better society at large. It attempts to at least partially redeem the relative neglect of general, social and community issues, especially by the private sector. It is trying to convey this message that although co-operatives exist primarily for their members, they are closely tied to the community and do have a special responsibility to ensure that their communities are economically, socially and culturally sustained.

Source: Reproduced from Datta & Elangovan (2004), pp.7-8

Section 2.4: Prevailing traditions and typology of cooperatives

Of the five established traditions of cooperatives, as mentioned earlier in the preceding section, producer, consumer and credit cooperatives are fairly well-known and constitute statistically significant proportions in terms of numbers across the world. Worker cooperatives, though significant in numbers today, got strong support and encouragement from the successful functioning of Mondragon workers cooperatives in the Basque province of Spain. Shared Services cooperatives, too, though quite common in developed countries, are less known in developing countries in spite of the fact they are probably more relevant in the latter context. While all the five traditions of cooperatives are important for a country like Afghanistan, it is also important to point out and illustrate the relevance of some of the lesser known categories. Moreover, it is important to highlight in this review the relevance of Solidarity as a Business Model, where diversity across members are deliberately encouraged as a design. The perspective of multiple stakeholders also arises in the natural course of events for multipurpose cooperatives, though the Draft Afghan Cooperative Law of 2013 seems to be favoring single commodity cooperatives more than multi-purpose ones for certain reasons. It is also important to highlight the role of new generation type processing cooperatives given the fact that the Afghan agricultural cooperatives badly need value-adding perspective.

Tradition of consumer cooperatives

Although the present dissertation mainly addresses the issues for farmer-producers' cooperatives in the context of Afghanistan, the other traditions of cooperatives are relevant too even in the countryside. Producers, everywhere in the world, are consumers, too, as they need production inputs as well as directly consumable inputs including groceries. So, to cater to their consumption needs, they may consider establishment of either separate consumer cooperative stores, or separate consumer sections within a multi-purpose cooperative framework, as most successful primary agricultural cooperatives in India have done. In the famous Warana Cooperative Complex near Kolhapur of Maharashtra province in India, its celebrated leader, Tatyasaheb Kore, inspired by the Japanese Consumer Cooperative Movement, established in 1978 Warana Bazar, a modern multi-branch departmental consumer cooperative store – the first of its kind in India, with help of ILO experts and covering some 88 odd villages across three districts to stop huge drainage of village money and exploitation of his farmers in the hands of unscrupulous traders, when he found that his farmers after successful operation of their cooperative sugar factory since 1959 began to make huge expenditure on consumption, demanding quality items. Thus, the Warana model became a celebrated one where the same farmers started earning more surplus through the cooperative route not only in production but also in consumption (see, Datta and Kapoor, 1996, and Datta et al, 2013 for further details). Only in early 2017, Warana Bazar came up

with a vast Cooperative Mall within its vast rural hinterlands – indeed the first of its kind in India!

If we link our Hypothesis 1 (mentioned in Chapter 1) with the Warna Coop complex of India, it is found that it exemplifies perfect coordination among the producers and consumers by way of flow of information among the various stakeholders. Here producers are consumers too and if producers' need for consumption goods were not revealed and respected, the coop Leaders could not have thought over organizing Consumer Coop and Coop market complex. Going with the same logic, it needs to be understood that the Warna complex has set up a Coop Bank to serve the credit needs of the members of the sugar coop factory, which could only be made operational with complete flow of data and information about the credit needs of the farmer members for sugar cultivation. It is the flow of information and data sharing that enabled the promoters to create a coop credit organization and therefore Hypothesis no 1 is found to be connected with this example of coop enterprise.

It is also to be mentioned that the first generation promoters of coop in Warna and their family inheritors had acquired progressive outlook through their exposure to outside world while building a complete coop complex to ensure that inter industry demand for goods and services are met from different arms of coop institutions to benefit the welfare and economic interests of its members drawn from these cluster villages. The leadership was enlightened encouraging modern outlook in production of commodities, processing and marketing and occupying niche in the consumer markets. The platform of conflict resolution among the inter coop institutions could be resolved through graceful cooperation of the strong coop leaders, satisfying interests of all stakeholders (conforming to hypothesis 1 of our research).

Tradition of credit cooperatives

As McKinsey on Cooperatives (2012, p.4) has observed, "Contrary to popular belief, cooperatives and mutual grow at similar rates as publicly traded companies". As per their analysis average annual growth rates of cooperatives during 2005-10 are quite comparable to public limited companies in insurance, integrated financials, retail, and food and agriculture – the segments covered by the McKinsey study. More precisely, these figures are 9.1% versus 10.6% in insurance and 11.2% versus 11.7%. In Europe, these four sectors together grow faster than the public limited companies. As Figure 2.1, reproduced from McKinsey on Cooperatives (2012, p.14) portrays, the North American cooperative banks have outperformed their rivals in terms of consumer satisfaction during 2009-11.

While explaining how a cooperative can win member loyalty and grow its membership base in exchange for placing the interests of customers ahead of short-term financial gains, the McKinsey Study has illustrated the example of NTUC Income, a coop insurer in Singapore as follows:

“...In 2006, NTUC’s market share had dropped from 16 to 14 percent. It was ranked fourth in Singapore in gross written premiums. To improve its position, in 2007, NTUC decided to focus on being recognized as “the honest insurer.” In other words, the coop decided that it was in the business of paying members’ claims based on what common sense and goodwill would dictate. NTUC instructed its agents that their job was to find reasons to pay the member (Ibid, pp.7-8).

Continuing with the illustration of McKinsey study, it was found that the organization improved its customer base, process technology, simplified insurance contracts, introduced faster settlement process, transparency, educating its customers and simplifying claim process. Instead of paying commission to the agents, they were motivated to concentrate on providing better services to its members and innovating tailored made products for the customers. From the part of the organization, responses to customer care, deploying a dedicated team for accident responses, deploying a group of claim agents to be moving on scooter in Singapore to settle accidental insurance claims speedily are some of the strategies deployed, which resulted in the improvement of market share to 22% and total income grew @17% per annum since 2007. It is now Singapore’s third largest insurer and by 2010, NTUC ranked number one in gross written premiums.

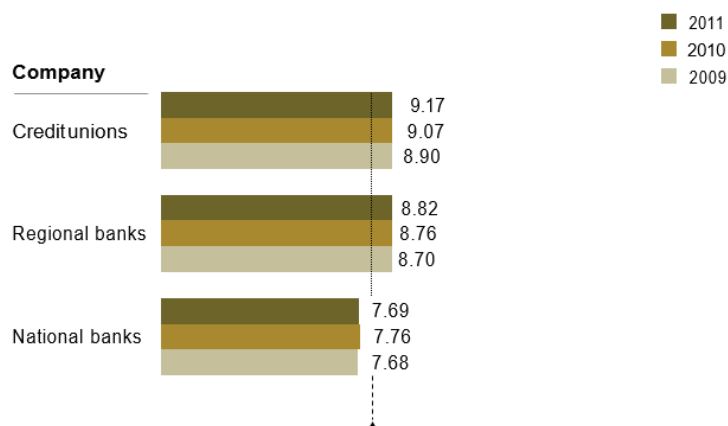
Linking the above experiences with our research hypothesis we observe that they can be connected with the first hypothesis in which constant exchange of market information and their analysis and review led the cooperators to adopt market friendly products and improvisation of operational aspects of their product deliverables to be relevant at the market place. Implicit in their operations is the renewed support of their members with the coop through unchanged or increased stake holding, in consonance with the 2nd hypothesis of the present research.

On the issue of leveraging distinctive capabilities, the McKinsey Study (2012) has explained how some cooperatives are able to expand into new geographies or markets based on unique expertise. It has cited the examples of Netherlands-based Rabobank and Crédit Mutuel, one of Europe’s largest banking cooperatives. The former is a federation of 141 financial cooperatives with roots in the Dutch agricultural sector. Its story is briefly narrated below.

“...After a failed attempt to compete in traditional investment banking during the 1990s, the bank decided to focus on becoming a global financial leader for the agricultural sector. This strategy to go international was built on two core beliefs: that pursuit of any such opportunity had to be relevant to existing members and that the opportunity had to be related to the organization’s distinctive expertise. By leveraging its 100-plus years of domestic expertise serving agricultural cooperatives throughout the world and focusing its international growth in cities where large agricultural members were present

and needed banking services, Rabobank achieved its goal. Eighteen percent of Rabobank's growth is now attributable to its activity in the global food and agriculture sector” (Ibid, p.8)

Customer satisfaction
(2011 industry
average=8.23)³



In the Indian context, primary agricultural credit societies (PACS) were the first set of cooperatives created by the British Government as early as 1904 which proliferated across the length and breadth of the country after Independence in 1947. Though the country has acquired a vast network of PACS with three more tiers at district, province and national level, it has mostly lost in quality, as most PACS, except those which are multi-purpose in nature so as to have credit-complementary activities, are mostly dependent on outside source of funds and working on commission without any value-adding credit-plus activities. As a result, except for multi-purpose societies, pure PACS are mostly in moribund conditions. Interestingly, both non-profit self-help groups (SHGs) and for profit non-bank financial companies (NBFCs) have grown in leaps and bounds to fill in the vacuum created by commercial and cooperative credit agencies, especially due to their general failure to cater to the needs of farmers and small businesses in the countryside. Interestingly, many of the credit and micro-credit agencies in India are highlighting the need for a “credit plus” rather than ‘credit alone’ approach, which is quite consistent with the fact that credit can’t stand alone (see, for example, Datta et al, 2013).

After dismantling of the Afghanistan Agriculture Development Bank, this country is badly in need of developing an appropriate cooperative credit structure. So, Afghanistan must extract necessary knowledge and lessons on agricultural credit from these experiences if it has to sustain and prosper its agriculture.

In most developing countries farm sizes are so small and irrigation facilities are so meager that farmers

³ Customer satisfaction was measured on a scale of 1–10; all data are weighted. Source: 2009–11 McKinsey survey of cross-industry customer experience

are often required to work as agricultural labor on others' land to sustain themselves. A large chunk of rural population is landless, who depend exclusively on sale of labor. As a result, a vast vulnerable section of rural population can't become producer members of agricultural cooperatives. There is a clear conflict of interests between the cultivator members and employee-laborers, as the ILO Guidelines on Cooperative Law (2012) has pointed out – while the farmer-members seek the highest value of their produce, the employee-laborers tend to look for higher wages. If laborers become part of an irresponsible trade union movement, as it seems to have happened in many places in India, this contradiction widens further. Apparently, there are two alternative ways to resolve this conflict – first, to take a multi-stakeholder approach as Japanese form of corporations called Keiretsu are following, or to have explicit labor cooperatives, which can negotiate with farmers' cooperative in the spirit of cooperation among cooperatives. So, sooner or later agricultural cooperatives must shake hands with worker cooperatives to handle such conflicts. Thus, farmer cooperatives must carefully learn and suitably exercise these two options.

The “credit plus” approach of the Indian credit coops is a clear improvisation in their business strategy, over and above a single purpose approach of dispensing “only credit,” has been made possible through sharing of different experiences, intensive research and dissemination of findings among the stakeholder and policy planners, which could be connected with our 1st hypothesis.

Evolution of multi-stakeholder approach

As Milgrom and Roberts (1992) has explained the evolution of multi-stakeholder approach in the private corporate sector, after the latter closely observed the efficiency gains from this approach in Japanese corporations called Keiretsu, the management started assimilating the interests of the owners, the equity holders with those of employees, and even order suppliers and organized groups of wholesalers and retailers, by issuing bonus shares in favor of such groups to reward and further induce better performance. In this context, they have written:

“Japanese corporations are structured differently than are those in other developed capitalist economies, and the basic principles that guide them seem to be different as well. A typical Japanese board of directors is made up almost exclusively of full-time employees of the firm. According to a 1991 study of 100 of the “best” companies in Japan, only 19 had any directors who were not employees, and of the 2737 directors of these companies, only 55 were outsiders. Even these might be the firms' bankers or the heads of wholly owned foreign subsidiaries. In contrast, among major US firms, 75 per cent of the directors are outsiders, and the ratio is almost as high in the United Kingdom. The stock in these Japanese firms is, to a large extent, in the “friendly hands” of affiliated companies, suppliers, customers or banks with long term relationship with the firm. More than 80 percent of the largest firms have a

majority of stocks in friendly hands. These owners will not sell a firm's stock under any sort of normal conditions, nor are they at all likely to participate in a proxy contest. In other countries, stock is more often in the hands of investors who may have no other business connection to the firm. The executives of major Japanese corporations have typically spent their entire careers in their companies, and there is little possibility of a senior executive of being lured away from one major firm to another. No managerial labor market enforces discipline on them.

In whose interests are Japanese corporations run? Their structure would hardly suggest that it is the shareholders' interests alone that are being served, although the profits that are generated have been handsome, and the Nikkie Stock Index of the share prices of the top firms has climbed to remarkable heights.

A distinguished student of Japanese economic system, Mashiko Aoki, has described the Japanese Corporation in terms of managers' mediating between the interests of different groups—particularly employees and investors (who, under the Japanese system, may include suppliers and customers)” (ibid, p.317).

The Japanese example of corporate governance where the employees are given preference over outside Directors can be related with hypothesis 1 and 2 of the likelihood of success of coop governance as in house Director is more likely to demonstrate loyalty and accountability to its internal stakeholders and generating value for the organization. Needless to say, the stakes of the shareholder (in this case) of this corporation would be nothing but positive, conforming to 2nd hypothesis of our research.

Needless to mention, American and European corporations are rapidly learning and following this multi-stakeholder approach. So, a legitimate question that can arise in developing countries, where the large number of small farmers are finding it increasingly difficult to cope up with increasing scarcity and wages of hired labor, can agricultural cooperatives lag behind in learning from the above-stated experience of Japanese corporations and the increasing trend in private corporate world to recognize and follow a multi-stakeholder approach?

This question is especially important; as Indian small farmer is experiencing. Thanks to unionization of labor and progressive raising of agricultural wages following large-scale implementation of Mahatma Gandhi National Rural Employment Guarantee Act, among other reasons, small farmers are particularly hit ⁴. At the same time, with progressive decline of agricultural cooperatives in the country side in terms of business as well as social prestige, farmers' children are becoming progressively disinclined towards both agriculture and cooperatives, thus further tilting the bargaining power in favor of hired labor for

⁴ See, Datta et al (2009) to know more about the impacts of MNREGA on the Indian rural economy.

cultivation or as employees of existing cooperatives. So, it is high time to recognize this reality about growing importance of labor, especially when small farmers are laborers too, rather than purely absentee landowners, and try to internalize the externality by winning over their support either through adopting a multi-stakeholder approach in existing cooperatives, or through achieving cooperation with their labor cooperatives under the celebrated principle of ‘cooperation among cooperatives’.

We first turn to multi-stakeholder cooperatives (MSC), popularly known as ‘Solidarity Cooperatives’ which “represent a re-articulation of the linkages between economic and social spheres in an environment where the global economy and new technologies call for a potentially unlimited mobility of capital, labor and knowledge. The local roots of solidarity cooperatives, which are owned and operated by local actors for the benefit of their members, represent an obstacle to this de-localization and maintain the balance between local socio-economic needs and the challenges and opportunities presented by the local economic system”, as viewed by Jean-Pierre Girard, a Canadian expert on MSC (quoted from Cooperative Development Center, Kent State University, 2011)

The above-stated document has provided the perspective of MSC in the following manner:

“Multi-stakeholder cooperatives (MSCs) are co-ops that formally allow for governance by representatives of two or more “stakeholder” groups within the same organization, including consumers, producers, workers, volunteers or general community supporters. Rather than being organized around a single class of members the way that most cooperatives are, multi-stakeholder cooperatives enjoy a heterogeneous membership base. The common mission that is the central organizing principle of a multi-stakeholder cooperative is also often more broad than the kind of mission statement needed to capture the interests of only a single stakeholder group, and will generally reflect the interdependence of interests of the multiple partners.

Multi-stakeholder cooperatives are the fastest growing type of co-op in Quebec, which itself is home to one of the most productive and vibrant cooperative development sectors in the world. There is also evidence of the increased use of this model in many European countries and growing interest in this form of co-op in the United States as well. While it is only in the last 20 years that this model has had formal legal recognition in various national or regional laws, the idea of involving a broader community in a cooperative venture is of course much older than that. Italy was the first country to adopt a multi-stakeholder statute in 1991 after two decades of experimentation on a local level.

In Europe and Canada, multi-stakeholder co-ops are typically formed to pursue primarily social objectives and are particularly (although by no means exclusively) strong in the areas of healthcare and social services. In the U.S. sustainable food systems has been a particular area of interest for multi-

stakeholder cooperative activity. This kind of multi-member cooperative venture can also be found in childcare, healthcare and brewing. (Ibid, pp 1-3).

Literature on multi-stakeholder cooperatives maintain that it is not natural that the people will be guided by commonality in their approaches, while differences are likely to surface, and there are ways to address to this behavior. Unless there is clear communication and interpersonal skill to resolve the divergence in the perception of interests among the members, it is not natural that the animosity among the members will be resolved. But to resolve them the management and the leadership would need to possess special skills, which is not easy to come by in the cooperative sector. Some coop observers have argued that because of these diversities, the cooperatives have incurred high transaction costs leading to closure. However, recent research from Canada however reveals that the above apprehensions are not supported by empirical evidence, and in many diverse situations, multi-stakeholder cooperatives are thriving. So, in cooperative literature domain, there are fears and apprehensions as well as success stories which make the subject interesting from the point of view of analysis and inferences.

Normally, cooperatives draw their membership from a single stratum of the society- - primary producers, or workers or by consumers etc under different typology of cooperatives. In fact, in the US, some state statutes even limit the ability of cooperatives to be structured in any way but to the benefit of a single class of constituents. Some cooperative observers have also raised doubts if different actors under a cooperative association could be united despite the conflict of interests often disturbing the balance between demand and supply side ends of the users as producers would always look for higher prices for their produces while the consumers would seek to get a lower price.

Even within a single purpose cooperative, the profile of the members is unlikely to be homogenous, more likely that there would be small producers and large producers as well, and the demand for services from the cooperatives by the small producers need not converge with the service demand of the large producers. Similarly, the credit cooperatives worldwide are the single largest cooperative, where the need of the borrower and depositor is unlikely to converge as borrower would demand lower interest rate while the depositor would expect higher interests for their deposits.

In a multi-stakeholder cooperative, the difference in perspectives are not only tolerated but they are in fact embraced. Their membership profile is drawn from a diversified set of groups or constituents like producers, workers, consumers, service providers, and many of them might have insignificant role in the operations. This becomes a complex balancing act where diversity of interests of different actors are accommodated, while recognizing the fact that these interest groups are interdependent and they impact the functioning of the cooperatives. In Quebec, such cooperatives are called “Solidarity”

cooperatives specifically to recognize their organizational basis to bolster commonalities rather than solidify differences. In fact, all multi-stakeholder cooperatives everywhere could be said to be practicing “Solidarity as a business model.” (Ibid, pp.1-3). In the following section, a few cases of multi – stake holder cooperatives from Canada, France and Italy are discussed.

The Quebec case of Multi Stakeholder Cooperative (MSC)

In Quebec province of Canada, the seed for MSC has taken a firm root and it is considered as the mecca of MSC enterprise in cooperative literature. However, the seed has been founded from among a solid foundation on 3000 cooperatives and mutual with a total membership of 8 million people, which is more than the total population of the province, as many people are associated with more than one cooperatives. It would be apt to say that the economy of Quebec is intrinsically dependent on the economic enterprises that are promoted, nurtured and employment generated through different nature of services and non -services promoted through the MSCs. There are more than 325 Solidarity Cooperatives in Quebec covering different sectors such as leisure, personal services, social services, business services, art and entertainment, commerce, housing, food stores, farming, printing, education, consulting and numerous other sectors, demonstrating a wider acceptance and localization in this region. In many shared services, the local government, citizens and the cooperatives join hands to help support cooperative enterprises. Promotion of Cooperative enterprises is a focused strategy of the provincial government for more than a century, and as per provincial cooperative act, different forms of non-financial cooperative could be organized as Consumer Coop. Producer Coop, Worker Coop, Worker Shareholder Coop, Solidarity or Multi Stake Holder Coop.

The Solidarity Coop can include members of different attributes to include users of cooperative services, cooperative employees and individuals and organization that share the cooperative’s economic and social objectives who join as supporting members. More than 90% of health care cooperatives in Quebec are organized as Solidarity Cooperatives (Girad, J-P, 2009). The progressive of Solidarity Cooperative in Quebec has been impressive, yet they are not without difficulties. It has been observed that mission or “raison d’ entre” of the Solidarity Cooperative is absolutely critical for sustainability – otherwise interests of one membership group may become unduly strong to maintain a balance between all groups. The difficulty in maintaining a balance among all groups was one of the reasons that led to 2005 change in the provincial law to allow Solidarity cooperatives to be formed of only 2 groups of members instead of 3 groups.

The cooperative protagonists in Quebec have also observed that cooperatives require senior management and board of directors to adept in managing different interests and perspectives, which cannot be done without adequate experiences, wisdom and management acumen. The early data

however suggest that the Solidarity Cooperative boards are able to meet the challenges and do not appear to be availing mediation services any more compared to conventional cooperative boards. Girard has observed “whatever the additional responsibilities intrinsic in multi stake holder board, members of these boards have been able to rise to meet them, at least to the same degree as their peers in other kinds of cooperatives”. However, it must be admitted that there are still not adequate data in this regard.

If we are to connect multi stakeholder coop or solidarity coop where diversity across different stakeholders are encouraged, it is important that such coop will be confronted with diametrically opposite interest groups leading to conflicts and such conflicts are essential feature of this type of coop organization. Needless to say that they fit into the hypothesis 1 of our research where resolving conflicts among the various stakeholders is one of the most important functional attribute of a typical coop governance framework. In other words, multi stake holder coop is an ideal embodiment of resolving multi –dimensional conflicts and complex interests groups within the coop institution and directly correlated with our hypothesis 1 and faintly with hypothesis 2.

The French Multi-Stakeholder option

As it is well known, France has a robust cooperative structure of their own since over a century. However, since 2001, they looked across the border to the success of Italian model of “social cooperative” and a French version of social cooperative took the nomenclature of Société coopérative d'intérêt collectif or SCIC. Under this social organizational set up, the French entrepreneurs with a social agenda accommodate interests of all related groups under a social enterprise called SCIC. Under this system, the community interests are the primary considerations where social objectives and interest groups are given precedence over one single group. The SCICs have the option of bringing together users, workers, investors, supporters and the investors into local initiative or only some of the above. By design, the SCICs will follow one member one vote principle of the cooperative enterprise. There is flexibility however in the distribution of voters among the groups of members referred to in France as member “college”. No college can however have more than 50% of the vote nor less than 10% (>10% and <50%), in any given cooperative.

From the angle of social mission, return on investment is limited to the average interest paid on private bonds. Financial contributors also receive handsome tax breaks designed to encourage local investment. France cooperative law requires that SCICs reinvest at least 57.7% of their surplus back into their indivisible reserves to safeguard sustainability of the enterprise. Similar to Italian law, there is protection from demutualization for his particular kind of enterprises by requiring that all liquidated assets be distributed among organization or business with comparable social objectives. Since 2001, only a handful of the SCICs incorporations have taken place, and the idea is still being tested. The

protagonists are hopeful that as the idea becomes better known, the SCICs will become a more widely-used tool for community development and social entrepreneurship, giving people a tool for nurturing local enterprises and, as one SCIC member put it, “making milk for their communities”.

Like the Quebec example of MSC, this case is no different from the hypothesis no 1, as distinctly segregated interest groups could most likely lead to complex conflicts which are addressed following careful conflict resolution framework within this coop governance.

Italian “Social Cooperatives”

Italy has had a strong practice of cooperative movement since the 1940s, but it was not until the 1970s that Italian co-operators began to explore the idea of multi-member cooperatives, particularly for the provision of social services. The first law governing such co-ops was proposed in 1981, but the final version was not passed until ten years later, following a great deal of debate and experimentation. So, the transition in the perceived interests in cooperative as a pure economic enterprise to providers of social services took nearly half a decade.

Like the governments of many other Western European nations, the late 20th century saw the Italian government in retreat from its past practice of providing a broad degree of social services directly, and looking anxiously for alternatives to stem the growing cost of its social welfare system. Italians were understandably nervous about turning over such vital services to a purely profit-based private market. Volunteers emerged to fill some of the gap, but a long term solution only arose with the formal development of a third way, a cooperative approach through their new social solidarity or “social co-op” model. The 1991 law outlines specific rights and benefits that accrued to the cooperative and its different membership classes, formalizes its connection to the local community and creates a framework for positive government support.

The Social co-ops in Italy are categorized under two types—Type A and Type B. Type A social coop are those coops which provide services in the health sector, social and cultural industries, as well as education. Type A coops are the majority of social cooperatives, representing about 59% of the total. The objectives of Type B cooperatives are to involve that segments of the society that are often marginalized or difficult to integrate into traditional job markets. These co-ops must have at least 30% of their workforce coming from disadvantaged groups, including the handicapped, ex-offenders, troubled youth, recovering addicts and the elderly. About a third of social co-ops are Type B, while the remainder are a combination of the two types.

In all social cooperatives, membership can consist of classes of workers, users, investors, supporters such as public institutions, and volunteers. All cooperatives abide by the one member, one vote rule. Cooperatives that include volunteers are restricted from having that class exceed 50% of the total membership, and volunteers' work can only be complementary to paid employees. While volunteer members played a crucial role in the launch of the social cooperative sector, lately their numbers have been dwindling. However, the role of non-volunteer, non-worker community "supporter" members has remained strong, and are a consistent source of both capital and important links to the local community. Like other types of cooperatives born from the Italy experience, social cooperatives are supported by various sector federations and consortia, operating as second tier cooperatives at the provincial, regional and national levels. These apex organizations provide everything from technical assistance and training to shared resources. For social co-ops, which are generally small, averaging less than 50 workers each, they also provide a means for these co-ops to achieve economies of scale through joint bidding. Since the majority of projects undertaken by these enterprises are contracts with local municipalities, if a cooperative wants to bid on a larger contract, they can do so by joining with their peers through the aggregated support structure.

In addition to the enjoying the advantage of a sophisticated cooperative support network, social cooperatives in Italy also benefit from various tax advantages. Type B social cooperatives, for example, do not pay payroll taxes if they hire certain percentage of disadvantaged groups. In addition, all social 24 Solidarity as a Business Model cooperatives receive a 25% reduction on land and mortgage taxes. A perceived weakness of the model as practiced thus far is the reliance of social co-ops on the state, as the majority of them have government contracts as their major, although not the only, source of revenue. On the other hand, the existence of such a reliable and supportive customer base has spurred the growth of social cooperatives which now number several thousand. The shift in focus from the pure "member benefit" orientation of traditional cooperatives to one with a "broader community focus" was also not without its critics in the Italian cooperative community. Others, however, see Italy's social co-ops not as a deviation from historical cooperative practice, but rather a return to its roots in the post-war period when cooperatives were seen as a vital tool of economic growth and self-determination for war-weary and impoverished communities across Northern Italy.

Whatever its strengths and limitations, other countries across the world are taking notice of the Italian model, as the social coops continue to pioneer a new frame work for effective multi-stake holder engagement (ibid, p 24).

The experiences of Canada, France and Italy on multi-stake holder cooperative or social cooperative tend to suggest that the process of cooperative diversification from pure member centric cooperative to a much broader purpose of cooperative as in Solidarity Cooperative is borne out of many social and economic considerations of the countries where they are in operations. Notable among them are: (i) wider engagement of different stakeholder groups to embrace user, workers, producer, consumer, community leaders, supporters, civil society, public and government institutions, (ii) the membership profile demonstrate a wide spectrum of flexibility (for example, the Italian social coops allow volunteers to be members whose composition needs to be <50%), (iii) community services and public services are primarily the focus areas which were hitherto being provided by the government or local bodies, but social cooperatives are being used as alternative approach, (iv) protected from “elite capture” of one specific group through various provisions under cooperative statute (v) economic support and incentives for fiscal concessions are provided for, (vi) community support and government focus are strong, (vii) provisions are made for enhancing sustainability, and (viii), governance is a major challenge to balance different interest groups and therefore the cooperative management and the board of directors role become significant. Different forms of social cooperatives have emerged in different countries of Western Europe, USA and North America, but they have adjusted with the local conditions keeping the spirit of Social Coops unchanged. Such localization has been necessitated due to special contexts of the country/province/region while adhering to the principles of cooperation and delivering services at a lower cost.

The Italian case of social coop is no less complex than the French social coop. On the contrary, it is a more complex coop. Yet, there is a built in conflict resolution and discussion forum wherein all interest groups are heard, deliberated and consensus arrived. While the conflict resolution and grievance redress mechanism are the hallmark of the governance structure, we do establish a direct connection with our 1st hypothesis directly, and discretely with hypothesis 2.

While continuing on the subject of MSC, it is found that Bob Greene and Heather Berthoud, two consultants on MSC, views this business model in the following manner:

“Coops reflect the triumph and struggle of democracy. . . . Disagreement and conflict are as much a part of democracy as the power of collective action. Managing disagreement and resolving conflict in a productive fashion are part of crafting an effective democracy.

While everyone knows the consequences of destructive conflict, the advantages of constructively managed conflict include greater understanding, enlightenment, and consensus”(quoted from ibid, p.1).

Robert Putman (2013), on the other hand, while making a distinction between two types of social capital – “bonding” and “bridging”⁵, highlights the need for both in healthy societies, which solidarity cooperatives are striving to achieve.

In fact, in multipurpose credit cooperatives in India, the spirit of the above-stated MSC is captured in the following manner. Such societies not only provide credit to farmers – largely out of their own deposits, but also undertake marketing of farmers’ produce, agricultural inputs and services, household provisions through consumer stores, besides giving birth to trusts to supply educational and medical services in their local areas. There are many such large multipurpose cooperative credit societies across the length and breadth of the country – especially very successful ones in the states of Gujarat, Maharashtra, Andhra Pradesh, Karnataka, and W. Bengal, to mention only a few known ones, which come close to the notion of solidarity cooperatives, as described in the preceding paragraphs of this section. Through appropriate management of diverse cooperative members – not only farmers owning land, but also numerous landless laborers and rural artisans, who are members of the consumer section, these cooperatives enjoy economies of scale in supply of certain services, besides overcoming common market failure problem through interlinked credit supply (i.e., supplying credit-plus services) and even avoiding the cost a separate credit insurance⁶.

There is yet another aspect of MSC to which attention ought to be drawn, is its proximity to the UN promoted concept of Public-Private-Community Partnership (PPCP), which arose to overcome the observed limitations of Public Private Partnership (PPP) model, which was promoted since late seventies under structural adjustment programs (SAP) of the International Monetary Fund (IMF). Given the fact that the recent development literature is replete with examples of State failure and Market failure led to development of the public-private partnership (PPP) concept, which was expected to complement the weakness of each of the two underlying institutions with the strengths of the other resulting in a win-win situation for both of them. Experimentation with explicit models of PPP however did not show much potential in efficiently allocating resources across the different sections of the citizenry, the specific reason being exclusion of the vast majority of common people – community – from the ambit of such a model of partnership, even though theoretically and ideally, community is a part of both State and the Market. But as would Green (1982) in his book “The Pursuit of Inequality”

⁵ According to him, “bonding social capital is what happens when networks link people who share crucial similarities; these tend to be inward-looking. Bridging social capital describes the power of the networks and relationships that happen when people with essential differences join together; these types of networks are more outward-looking. He describes bonding as a kind of sociological Super Glue—when we are sick, it’s our bonding social capital partners who bring the chicken soup. Bridging social capital is akin to sociological WD-40—it’s what keeps a diverse democracy vigorous and inclusive” (ibid, p.46).

⁶ For details, see Datta and Sriram (2006, 2012)

argue, common man has been rendered the role of a faceless entity in operations of both Market and the State. From the perspective of State – a citizen is identified with a number assigned to him/her by the State – Election Card number, Passport number, PAN or *Aadhar* card number as in case of India. Obviously, the unemployed section of the society consumes without producing and hence their participation in the domain of production is ruled out. Such an exchange mechanism ultimately boils down to an impersonal relationship among individuals – the consumer does not know the ones who produced the goods or services exchanged. The producers also never get to know the identity of the individual who ultimately consumed the products. Under such circumstances, both State and the Market show tendencies to suffer from elite capture – faceless individuals always remaining at the receiving end of the unequal process of exchange with some select individuals having faces known to each other capturing the benefits of such partnership between the state and the market – and at the end, any partnership between them often downplays the good of the common citizens. In this situation, PPCP has been conceptualized to reduce the possibilities of elite capture, or the wealth effect, a la Coase Theorem, in social allocation of resources. Obviously, PPCP is designed to make it different from both state-led models of participatory development, on the one hand, and the models of CSR, on the other. Accordingly, PPCP is being defined as a business entity in which the three partners come together to eradicate poverty and improve the living standards of small and marginalized farmers and artisans. In this partnership model, public relates to government including the local self-government institutions (e.g., Panchayati Raj Institutions (PRIs) in India), private relates to an individual entrepreneur as well as a large corporate sector firm and community relates to common people including their groups or associations.

Tradition of labor cooperatives

In recent times, emphasis on labor cooperatives soared high as the world came to know more and more about Mondragon labor cooperatives, now part of the Mondragon Corporation. The inspiration being provided by Mondragon can be well judged from the following quotes from an article, published by Islam and Crego in Economic Times on Nov13, 2017⁷:

“The Mondragon story is not well known outside of Spain and labor circles. It is one that deserves to be told, however, given the current conditions confronting the American worker and the footprint Mondragon is beginning to build stateside” (Islam and Krego, 2017, pp.1-3).

In March of this year, the Financial Times (FT) awarded Mondragon Drivers of Change “Boldness in Business” award, a prestigious one from the perspective of innovating new type of business model,

⁷ Source: http://www.huffingtonpost.com/frank-islam/a-formula-for-reawakening_b_3914914.html

‘Humanity at Work’, reflecting cooperation, working together, solidarity and involving people in the new environment. During the past 3 years this award was bagged by Fiat in 2009, Apple in 2010, and Amazon in 2011, all of them are large corporations, and a remarkable recognition of the achievement of a cooperative enterprise which was founded by a Catholic priest, Jose Maria Arizmendiarieta, in the Basque region of Spain in 1956. Earlier to this, Jose Maria Arizmendiarieta and five of his followers had earlier established a worker cooperative named Ulgor, but it was not successful in to bring out “humanist reform” in the large company where they were working in the city of Mondragon. From that humble beginning, Mondragon has grown exponentially with more than 80,000 people employed in an integrated group of over 280 cooperatively owned businesses, subsidiaries and affiliated organizations, sales of more than 14 billion euros, and 100 production centers around the world.

The four functional areas of focus of Mondragon are finance, industry, retail and knowledge. It is the by far the biggest sector is the industry comprising of 12 divisions such as industrial automation, construction, and machine tools. Needless to say, it appears to resemble as a large conglomerate that is assembled by some acquisitive capitalist or entrepreneur. But, that is not the real story. According to Paul Harvey, the remaining part of the Mondragon story is narrated below.

“That is Mondragon is different by intent and design. Here’s a description of the Corporation from “The Mondragon Cooperative Experience: Humanity at Work,” one of the 10 winning story entries in the Long Term Capitalism Challenge sponsored by the Harvard Business Review/McKinsey M Prize for Management Innovation: “Broad employee ownership of enterprise is Mondragon’s key to long term capitalism... We put it into practice through an innovative, multilevel network of cooperative enterprises, based on a bottom up corporate architecture, in effect an inverted conglomerate.”

Space does not permit describing the “inverted pyramid” and how Mondragon is organized and operates, although it is fascinating. What is more fascinating than the structure - the head and the body - however, are Mondragon’s heart and soul - the Corporation’s mission and its basic principles. Those are its true differentiators and drivers.

Go into most businesses in the United States, and you’ll see a mission and core values statement on the wall. Over our careers, we have seen hundreds. But, we have never seen one quite like Mondragon’s. Essential elements of that mission follow. Try them on for size:

Mondragon is firmly committed to the environment, competitive improvement and customer satisfaction in order to generate wealth in society through business development and the creation of, preferably co-operative, employment which:

- *Is based on a firm commitment to solidarity and uses democratic methods for organization and*

management;

- *Fosters participation and the involvement of people in the management, profits and ownership of their companies, developing a shared project which unites social, business and personal progress;*
- *Fosters training and innovation through the development of human and technological skills.*

Then, there are Mondragon's Basic Cooperative Principles: education, sovereignty of labor, participation in management, wage solidarity, instrumental and subordinated nature of capital, democratic organization, open admission, universal nature, social transformation, and inter-cooperation.

According to the award-winning Mondragon entry for the Harvard Business Review/McKinsey contest, "These principles have a direct impact in how Mondragon is managed." For example: the "education" principle plays out through a heavy investment in improving human capital and diffusing cooperative values across the Mondragon network. The "sovereignty of labor" principle means that people who work in an organization should share in ownership rights and responsibilities. The "worker solidarity" principle is implemented through a low differential between the lowest paid and highest paid persons in a business— about 1:6 at the individual cooperative level" (Ibid, pp.1-3).

It must be pointed out that Mondragon is an industrial laborers' cooperative. Small and marginal farmers being laborers too in most developing countries, they can as well join hands with landless people to form agricultural laborers' cooperative, drawing suitable inspirations from Mondragon.

Tradition of Shared-Services Cooperatives

Rural areas of most countries invariably depend on community services provided by schools, hospitals, small businesses, churches, local governments, etc. Shared-services cooperatives 'can often help lower their operating costs by obtaining the needed services and products through them. USDA defines it as a cooperative business organization owned and controlled by private businesses or public entities which become members of the cooperative to more economically purchase services and/or products. Members of shared-services cooperatives respond jointly to common problems.

USDA has provided several examples of shared-services cooperatives - groups of employers who form alliances to buy health care insurance or to purchase health care services directly from hospitals and physicians, school districts organizing cooperatives to provide special education programs as well as purchasing products (e.g., janitorial supplies) for individual school districts. Hardware stores, restaurants, independent pharmacies, rural electric cooperatives, and natural food stores also form

shared-services cooperatives that operate as wholesalers. Thus, shared-services cooperative can serve virtually any business enterprise (Crooks, Spatz and Warman, 1997).

Naturally, this category of cooperatives has strong relevance for developing countries like Afghanistan.

The experiences of shared service cooperatives are related to hypothesis 1 of our dissertation. For one, the information sharing among all those who share services of Shared Service Coop in variety of service related activities are largely in the domain of multipurpose services and very typical of developed countries coop structure. However, they can as well be organized at the rural level where rural activities and way of life is also diversified and there is space for prioritizing interests of one Group over other, which could breed conflict. Therefore, conflict reporting and, resolving such conflict within the coop organization can be associated with hypothesis no 1 of the present research.

New Generation Cooperatives

In the north central United States agricultural sector, a renewal in the growth of cooperative enterprises had been witnessed since 1990s. This resurgence of cooperative development has been referred to as a "cooperative revival" and "co-op fever" and had people from all over North America visiting the region to understand how and why it has become such a hotbed of new cooperative development. At the heart of the cooperative revival lies the so-called New Generation Cooperative.

New Generation Cooperative (NGC) is the term that has been applied to the dozens of value-added processing, selected membership cooperatives that have formed in the North Dakota and Minnesota area in recent years (Egerstrom 1994). The new cooperatives have been organized virtually in every sector of agricultural production in the region. They are being formed by producers involved in emerging niche markets, such as bison processing, tilapia production, organic milling, and specialty cheese processing, as well as in more traditional, value-added activities such as corn sweetener production, sugar beet processing, pasta production, and hog operations (Hariss et al 1996).

Review of cooperative types and traditions would remain incomplete without reference to the evolution of new generation cooperatives or processing cooperatives under pressure from external factors to perform the job of value-addition in backward provinces like North Dakota or Minnesota in the US. Cobia (2017) has narrated the story as follows:

"Declining rural population coupled with the farm crises and an oil bust in the late 1980s created a morose mind set regarding the state's economic future. Popper's prophecy that North Dakota would

return to its original pre-settlement condition of "Buffalo Commons" incensed North Dakotans and helped galvanize them into activity. A non-political effort, labeled Vision 2000, sponsored by the Greater North Dakota Association (a statewide chamber of commerce) developed an evaluation of the state's economy and prepared a planned response for economic development..... An 8- point action plan was devised for the 4 major sectors of agriculture, energy, manufacture, and service. A collaboration took place in the fall of 1990 between the efforts prompted by Vision 2000 and the governor's economic development initiatives resulting in legislative programs expansively referred to as "Growing North Dakota." One goal was to encourage collaboration to exploit value-added processing of agricultural products in the state. The mission and resources of the formerly created Agricultural Products Utilization Commission (APUC) was expanded. In its current form this agency has about \$1,000,000 per year for projects ". . . to create new wealth and jobs through the development of new and expanded uses of North Dakota agricultural products" (APUC). One of the 4 categories is "Cooperative Marketing" intended to encourage groups of farmers to "develop innovative marketing strategies."

Private agencies took action as well. Utilities have been particularly active. The North Dakota Association of Rural Electric Cooperatives, for example, hired an economic development specialist. It also awarded noninterest bearing loans for economic activity.

One of the landmark events in the history of APUC was setting up of four sugar beet cooperatives in early 1970s following different methods than the traditional way of creating cooperatives. A new mind set regarding member investment and transferable delivery rights and obligations was put in place. Though all farmers did not join voluntarily into these cooperatives, yet many producers came forward making personal sacrifices and brought in new ideas into the new generation cooperatives. Alongside, the external economic conditions had been changing creating opportunities for new cooperative experiment. Some cooperative observers put this phenomenon humorously to describe the changes as not 'statistically tested or validated', as done through conventional way. The reform process was facilitated by organizational catalysts and financial grants. Under organizational catalyst, communication was the critical input especially the intuitive expectation of central business reorganization process among the group which was steered by qualified consultants. Organizational catalysts also provide guidance in the timing of the various phases of development. The second critical resource was financial grants to support the organizational phase of cooperative formation. The business plan typically required an expensive feasibility study.

Resources were to be pulled in for meeting expenditure to pay for lawyers, accountants and other consultants to prepare business plan and prospectus for the cooperative. External funds were secured primarily from APUC in the North Dakota region. This was considered as most critical from the point

of view of grant request and timing of its award. The potential members were called upon for matching funds as a measure of their commitment to the initiative. It was accompanied by a preliminary plan justifying the requirement of funds and also demonstrating project viability. Availability of timely grants and mobilization of seed money from the potential members was helpful for financing the feasibility study and preparation of business plan and highlighting the plan so that the steering committee could show the plan through a prospectus and continue with their equity drive and raising debt financing for investment into the initiative.

An important foothill in North Dakota is the "Marketplace of Ideas," first organized in 1989 by State Commissioner of Agriculture Sarah Vogel and Senator Kent Conrad. This annual open house is intended to create enthusiasm for new markets and new product development and provides networking opportunities to carry out these ideas. This is accomplished with a display area where booths can be set up to promote new ideas, workshop sessions on new enterprise development, and an opportunity for meetings of special interest groups to discuss, explore and organize. It also facilitates networking between groups interested in new ventures and agencies providing support. Attendance at Marketplace has grown from about 600 in 1989 to 5,000 in 1996.

Other critical foothills are a pool of qualified private consultants, attorneys, and accountants. Not all of these professionals are created equal. A few of them have developed expertise steering committees can have confidence in.

The St. Paul Bank for Cooperatives has played a pivotal role in guiding new cooperatives in their formative stages as well as extending debt capital to the cooperative itself. Commercial banks, credit unions and especially the Farm Credit System have actively loaned funds to farmers for their equity investment in new cooperatives. The state owned Bank of North Dakota extends credit both to cooperatives and to investing farmers in its effort to promote the state's economic development. Several other support systems play helpful roles in specific situations. They include communities, regional economic development commissions, individual RECs, and North Dakota State University's Extension Service.

Other activities are intended to aid in the continuation of new cooperative formation. Included are the training conferences for steering committee members and economic development professionals held in North Dakota, Minnesota and Saskatchewan and a periodical and video on cooperative development prepared by the Minnesota Association of Cooperatives” Cobia⁸, 2017, pp.1-3.

⁸ Source:

file:///F:/All%20Coops%20materials/More%20downloaded%20articles%20on%20coops/University%20of%20Wisconsin%

Our research hypothesis no 2 is relevant in case of NGCs, as NGCs are designed to add value to their produces through upward integration of procurement with processing and marketing as also creating a niche in the market. So, hypothesis no 2 gets triggered under this. Thus, the producers' stake will have to rise proportionate to their volume of business with the NGCs, because it is always believed that share capital contribution of the members are free from any strings attached and it is considered as cheap money. Hypothesis 2 has been framed to represent producers' stake in the coop institution.

Section 2.5: Evolution of the theory of agricultural cooperatives

From review of the early literature on evolution of the cooperative form of organization elaborated in Section 2.2 above, it is clear that there are broadly speaking three broad stands of thoughts behind formation of co-operatives - first, a safety net perspective, which co-operatives tend to provide for certain disadvantaged groups of people; second, co-operative as a rival form economic organization - rival to investor-oriented firms (IOFs); and third, co-operative as a broader socio-economic rather than a purely economic organization. Given such varied perspective, it is no wonder that a unifying theory of cooperatives was hard to emerge early in human history. As a result, the cooperative association of agricultural economics was never envisaged as one of three types of economic agents of traditional microeconomic theory – namely, consumers, firms (entrepreneurs), and resource holders. Just like this classification failed to accommodate numerous decision-making units like governments, political parties, and labor unions, which were left outside the domain of predictable economic phenomena, the early theories of Emelianoff (1942) and Phillips (1953) didn't view cooperative associations as firms. However, the path-breaking work by Helmberger and Hoos (1962, reprinted later by *Journal of Cooperatives*) has shown that *“by making certain assumptions within an organizational framework, the marginal analysis can be used in deriving hypotheses about cooperative performance in much the same way as it has been used in traditional theory”*. In fact, the last two authors are of the view that *“organization theory provides a broader interpretation of the firm that is useful for empirical research on cooperative decision making”* (Ibid, p.72).

A 1987 edited volume by Royer – a collection of 9 papers on cooperative theory relating to operations, market behavior, decision making, finance and other aspects of farmer cooperation titled 'Cooperative Theory: New Approaches' brought out by USDA has probably made the most remarkable contribution to the evolving theory of cooperation which is becoming increasingly complex with the passage of time. So, the rest of this section will be devoted to bringing out the salient points of some of these papers, which have thrown light on the distinctive and complex character of cooperatives as well as their

governance structure, given the main thrust of this dissertation to help evolve a sound governance structure for Afghan agricultural cooperatives in a war-ravaged economy.

We start with Condon (1967), who argues that in complex organizational forms like cooperatives, the assumption of a singular firm objective is a potentially misleading simplification, as cooperatives have at least three identifiable major agent groups, who may complement, supplement, or contradict each other in terms of goals.

He asserts that the simplest possible assumption of Helmberger and Hoos (1962) that all members are simple short-term profit-maximizers subject to price-taking behavior may not conform to reality. For example, they may look upon cooperatives as providing long-term access to input or output markets that an IOF cannot guarantee. Such an objective would bring in dynamic considerations about future discount rates. Members also may view the cooperative as an institution for reducing their asset specific risk, given the fact that the farmers typically make large amounts of capital investment in undiversified, specialized assets like land, buildings, and equipment. Cooperatives also reduce short-term producer price risk through pooling. Naturally, such alternative member objectives can't be adequately addressed in a static maximization model assuming a world of perfect certainty.

In cooperatives, board directors form the link between the large group of members, on the one hand, and management, the actual decision makers, on the other. The apparent failure of existing theory to examine the assigned role of board members seems to imply by default that the intended purpose is always fulfilled, which may not be true in reality. The interests of members can vary according to their size, risk preference and future perception, while the traditional thinking continue to hold the view that the board will always reconcile the diverse conflicting goals of members in the long-term interest of the cooperative firm, instead of having its own axe to grind. In an IOF, typically, the board contains a mix of insider shareholders as well as outside experts, whereas in cooperatives, the board almost invariably contains only insiders and hardly any expert (barring exceptions).

Regarding the goal of the management, the traditional Helmberger and Hoos model assumes that cooperative management is always constrained by the cooperative members' firm-wide objective of maximization of per unit price of member patronage, organization theory stipulates alternative behavior like ultimate managerial role depending on the voting strength of the interest groups – thus promoting an agenda different from the overall member interests. As a result, the level of expenditure required on monitoring and enforcement by members and the board to ensure member-compliance behavior of management may be excessive, meaning marginal cost may exceed marginal gain. Such behavior is consistent with Baumol's (1959) goal of sales maximization or the implications of the general theory

of separation between ownership and control of firms, developed by Jensen and Meckling (1976) and Fama and Jensen (1983), in which managers are looked upon as maximizing the value of their pecuniary and non-pecuniary rewards.

In view of the above-stated dilution in the property rights of the owner-members on their cooperatives, the traditional Helmberger and Hoos hypotheses on cooperative functioning, behavior, decision-making and performance seem to have fallen flat on the ground, though their hunch on the relevance of modern organizational theory to explain cooperatives has turned out to be absolutely correct.

To find out the survival strength and thus relevance of co-operatives in a liberalized economic scenario, Datta (2004) has examined whether co-operatives 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. This is where the concept of transaction cost becomes relevant. Transaction costs arise in information gathering, in negotiation and in enforcement of contracts in the exchange process, the moment one starts deviating from the idealized 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.

Datta (2004) has found that a co-operative organization has the potential to economize 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 n th 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 co-operative organization can perform better than its rivals, especially when the co-operative members are likely to meet each other in repeated games and are also bound by a common set of values.

A suitably integrated co-operative 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 co-operative organization owned, controlled and managed by farmer-producers is expected to enjoy by design a 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 co-operative 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' co-operative can also provide a useful forum for resolving cross-farmer conflicts.

A co-operative organization can also 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 co-operative, 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. Many of the potential benefits farmer cooperative associations and firms offer to their members derive from the fixity of assets. Both physical and human, in farming and other type of agribusiness. Asset fixity in farming generates rents, which farmers' trading partners can potentially capture by acting opportunistically, provided that asset fixity in the trading partners' business creates barriers to entry or exit that permit the exercise of market power. Asset fixity therefore underlies the arguments that the cooperatives are necessary to provide farmers with market power and to preserve their access to markets.

First, cooperative associations attempt to redistribute rights not only through the exercise of countervailing power but through direct involvement in the political system as well. Once organized, a cooperative association can be used at low cost to lobby for other issues, such as improved terms of trade, for example, by US dairy cooperatives. As direct involvement in the agricultural economy increases, lobbying may become the most important function of many cooperatives⁹. Particularly when farmer members have strong common interests, as in single commodity organizations, farmer

⁹ In the words of a manager of a large dairy cooperative interviewed by Staatz: "We can increase returns to our members in two ways: through improving the efficiency of our distribution system for milk through political action. Increasing efficiency adds pennies to our members' milk checks while political action adds dollars. We allocate resources accordingly". It is further reported that in Scandinavia, agricultural cooperatives take on many of the functions of a public agency, helping to coordinate government farm programs and equilibrate the supply and demand for agricultural products (Ibid, p.99).

cooperative associations may be an important means by which farmers can unite to take political action. Such an association may evolve into a firm because a cooperative firm also can provide its members with appropriate goods and services as well as a means of organizing political action, thereby overcoming many of the free-rider problems inherent in political organizations.

Second, farmer cooperative associations, with their emphasis of member involvement and voting on a basis other than capital contribution, are historically formed as part of a broader attempt to promote democratic values and wider political participation in society, particularly in situations where other social organizations were highly autocratic. Early cooperative organizers in the US, for example, saw themselves as a part of a larger social movement aimed at redistributing power in the society, and much of the early growth of farmer cooperatives, and hence their current competitive positions in US agriculture, is attributable to the strength of the populist movement of the late 19th century and early 20th centuries. So, the importance of democratic cooperation continues to be emphasized not only as an end in itself, but also as a way of combating the concentration of wealth and power they see as inherent in capitalism. Many cooperative supporters also stress the importance of cooperatives as “training grounds for democracy”.

Third, the farmer-stockholder have fewer incentives to act opportunistically toward their own cooperative firm than they do toward an IOF (provided that their return from the cooperative is contingent on their continued patronage); therefore, the cooperative firm has more of an incentive than an IOF to invest in training farmers in new production techniques.

Fourth, the potential for opportunistic appropriation of rents from the farmers is accentuated by the riskiness inherent in agricultural markets. Cooperative firms may offer farmers certain advantages in dealing with risk, primarily through firms’ ability to practice contingency pricing via patronage refunds and to offer members some degree of revenue insurance through pooling. This suggests that pooling will be more prevalent in subsectors like fruits and vegetables, where production and prices are more volatile and their risk management tools such as the future markets are available, then they will be in subsectors like grain, where risk may not be as great and there are alternative ways of managing it.

Fifth, farmers may vertically integrate via cooperative forms to internalize externalities imposed on them by their trading partners. On the output side, farmers’ trading partners may pay insufficient attention to maintaining the quality of farm products, particularly highly perishable ones, as they move through the marketing system, thereby depressing farm level demand for these products. On the input side, farmers may have an incentive to integrate backward when they have no simple way to ascertain the quality of purchased inputs, such as by simple inspection or by relying on the sellers’ reputation.

Particularly in the early stages of industrialization of agriculture, when purchased inputs are just becoming important in farming and input suppliers' reputations are not well established, farmers may have a strong incentive to integrate vertically via cooperative firm to assure input quality. Moreover, the cooperative structure allows farmer-members to make certain location-specific farm-level decisions individually while allowing other decisions to be made collectively. Therefore, if there are incentives to vertically integrate farming with other stages of production, cooperatives may be a more flexible means of achieving that integration than IOF, in which central management may be reluctant to decentralize a large number of farm-level decisions.

In many societies however, the ability of a farmer organization to attract an initial membership and win concession from the political system may depend on its being perceived as a democratic instrument of self-help, aimed at tempering the alleged rapaciousness of capitalism.

However, Porter and Scully (1987) through comparison of property rights between a co-operative and an IOF suggests significant inefficiency in co-operatives arising from (1) a horizon problem, (2) a non-transferability problem, and (3) a control problem. These problems are elaborated below, as suitable remedial steps are called for through cooperative governance if co-operatives are to survive in a competitive framework.

A horizon problem arises when an owner's claim on the net cash flow from an asset is less than the flow of returns over the productive life of the asset, and as a result the return to the owner tends to be lower than the true return from the asset. This results in under-investment in co-operative assets. This problem is even more acute with respect to intangible assets like brand loyalty and distribution system, where co-operatives will typically under-invest. As pointed out by the same authors, claims on the firm's shares can be transferred only through a system of revolving finance, which demands 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. This means in cooperatives, claims arising from productivity enhancing investments cannot be capitalized and transferred, and claims on intangible assets cannot be transferred at all. However, to the extent co-operative processing facilities are advantageous to the producer, their value can be capitalized 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 producer puts a constraint on this adjustment mechanism. It is not surprising therefore that modern agribusiness co-operatives called new generation cooperatives (NGCs) are asking for proportionality between investment shares and patronage, besides putting suitable restrictions on open membership and non-member participation of benefits.

Thus, a co-operative firm with non-transferable assets faces two types of 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 become necessary to monitor employees to increase net cash flows, which are not always undertaken. Hence fewer resources are generally dedicated to the entrepreneurial functions of innovation and organization, and to monitoring and enforcement of contracts.

As Condon (1987) has pointed out, the investment horizon problem of cooperatives can be overcome to some extent through the following measures. First, a concentrated educational effort to convince Board directors of the necessity of safeguarding the long-term interest of the organization may partly help overcome the built-in tendency of members to maximize short-term gains. Second, the members can capitalize the present value of their fixed assets like farmland. Finally, this problem may be ameliorated if farmers can pass on their landed investments to future generations. Further, an informal shares market, as prevalent in South Gujarat and Maharashtra sugar co-operatives in India, may provide a partial solution to this problem.

The control problem arising from principal-agent relationship between co-operative owners and employees is believed to be more severe in co-operatives 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, co-operatives have to rely exclusively on internal monitoring, unless competition can be introduced through multi-plant performance appraisal. Inequality between patronage benefits and servicing on shares also expands the principal-agent problem into an agent-multiple principal problem, demanding spending of costly resources to get consensus opinion among the members.

If the hypothesis that the structure of the cooperative board of directors replaces the unique control function that is lost due to the lack of a secondary market for residual claims proves valid, then Condon (1987) fears that *“this control function will weaken as organizational hierarchies emerge that are further removed from the member-patron and member-director agricultural experience. The emergence of the giant interregional agricultural cooperatives in such areas as petroleum products, equipment manufacture, and international export of commodities in recent years has led to board of directors consisting of agricultural producers who may have little experience in the complexities of their cooperative’s line of business. Directors may feel incapable of judging the quality of management decision. In such situations the rights to decision control may be effectively relinquished to management. In addition, some boards often are partially made up of management representatives from the constituent regional organizations. Such a trend could lead to increasing degrees of management*

control” (Ibid, p.27).

On the issue of relative efficiency of co-operatives, as mentioned earlier, there is however very little evidence one way or the other. The general impression about relative inefficiency of cooperatives continues because while co-operatives maximize service to the member’s 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 co-operatives. This result per se is however not bad for the co-operatives as 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 experienced 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 co-operatives to their members. In spite of these difficulties, it is worth noting in this context one comparative ratio analysis by Gentzoglanis (1997) of comparable co-operative 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 (displayed in last column of Table 2.5). While there is definitely a lot of room for further research in other sectors and in other countries, Gentzoglanis’s study demonstrates that *“co-operatives’ and IOFs’ performance indices such as profitability and technological abreast, do not differ significantly, while in others such as liquidity and leverage, there is statistical difference”* (Ibid, p.178). A close look at Table 2.5 reveals that liquidity ratios are significantly less as expected in co-operatives, though this difference is pretty high with respect to working capital to total capital assets ratio. With respect to un-depreciated fixed assets to total capital ratio, the co-operative’s figures are expected to be less than the same for IOFs, which is also found to be true in this study. With respect to the debt ratios, co-operatives’ figures are expected to be larger than those for IOFs. However, this is found to be true for only one of the two ratios. The profitability ratios are generally less for co-operatives, but this expected result is found to have been reversed for two of the three profitability ratios reported in this study (though the differences are not statistically significant). Thus, in overall terms, Gentzoglanis’s results do not display any burden of traditional co-operative principles in achieving comparable productive efficiency by the co-operatives. 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 co-operatives with a competitive advantage permitting them to show year-end performance not different than the one realized by the IOFs”* (Ibid, p.180).

Although the discussion in this section has been limited to the notion of efficiency in the market place, one cannot ignore the fact that co-operatives being member-owned, member-controlled and member-

used organizations, their success cannot be judged on the basis of mere and narrow market performance. So, it is important to cite at this stage a few related concepts, which could to be applied while evaluating the performances of co-operatives in the context of other countries with comparable sample so avoid scale bias in the inferences. As Gentzoglanis's study is exploratory in nature, it needs to be validated under other cultural contexts, particularly from the developing economies. In its present form, the observations are indicative, thereby provides the basis for additional research as to work out a comparative analytics of the financial performance indicators from a broad based survey across the countries involving IOF and the cooperatives.

While evaluating the performance of Swedish consumer and producer co-operatives, 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 organization like a co-operative. In his view, a number of contradictions need to be carefully resolved if an organization 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 agribusiness co-operatives. He has specifically warned against emergence of the following extreme possibilities in co-operatives:

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

Table 2. 5: Comparative Economic & Financial Performance of Dairy Units

		Group means (1986-91)		Significance	Expected
Performance ratios	Formulae	Co-operatives	IOFs	Level (5%)	Relation
<i>Liquidity Ratios:</i>					
R1: Current ratio	V1/V2	1.016	1.227	Yes	Cop<IOF
R2: Quick or acid ratio	(V1-V3)/ V2	0.893	1.117	Yes	Cop<IOF
R3: Working capital to current assets ratio		0.277	1.280	Yes	Cop<IOF
R4: Cash ratio	V4/V2	0.180	0.395	Yes	Cop<IOF
<i>Leverage Ratios:</i>					
R5: Undepreciated fixed assets to total capital	V5/V6	0.617	0.645	No	Cop<IOF
R6: Debt ratio	V7/V6	0.946	0.659	Yes	Cop>IOF
R7: Debt to equity ratio	V7/V8	1.118	1.555	Yes	Cop>IOF
<i>Profitability ratios:</i>					
R8: Return on equity after tax	V9/V8	0.089	0.071	No	Cop<IOF
R9: Return on total capital before interest & tax	V10/V6	0.081	0.081	No	Cop<IOF
R10: Return on total capital after tax	V9/V6	0.063	0.050	No	Cop<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:* Gentzoglanis (1997)

According to Pestoff (1991), as co-operatives 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 co-operatives - 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 co-operative 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 co-operatives. A co-operative must convince its producer-members or consumer-members that as members of an organization they belong to a 'club' or a 'family' in order to overcome the anonymous and temporary nature of market relations.

As co-operatives 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, co-operatives are capable of stretching themselves so as to encompass all the three F-connections (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, co-operatives need a concept and measure of membership influence and participation to evaluate co-operative democratic effectivity. The political dimension of co-operative effectivity is described as follows. As co-operatives 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 organizations and spokesmen for their members. This means the co-operatives 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 co-operatives and their members at a comparative and competitive disadvantage. On the human resource dimension, co-operatives face problems similar to their private competitors. The special character of co-operatives is that their personnel are not merely employees, but entrepreneurs engaged in fulfilling the co-operatives' goals. Hence co-operatives need special efficiency in the employment of their personnel. The information and education policy of co-operatives - which can be termed as ideological effectivity - constitutes the fifth dimension of co-operative 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 co-operatives must be committed to educate their members, officers, employees and even the general public in the principles and techniques of co-operation. An active education and information policy thus constitutes a distinctive feature of co-operatives, which sets them apart from private firms and public enterprises.

Section 2.6: Importance of Cooperative Governance and Stakeholder Cooperation

Historically, the governance issue cropped up first in the context of private corporations as soon as the traditional mantra of shareholder profit maximization as the guiding force by all parties in a corporation began to be challenged. As Emelianoff's (1942) pioneering work on cooperatives was based on a parallel with the traditional corporate form business, the issue of governance of cooperatives hardly surfaced earlier, notwithstanding the fact that cooperatives are an altogether different breed of organization having a mix of both association and enterprise focus. Hence the distinctive role of the board and other stakeholders – the real governance issue - wasn't well understood, nor debated unless and until developments in modern organization theory and its extensive application to cooperative bared

the knotty issues. This is probably the major reason why the subject cooperative governance remained largely unexplored, under-researched and debated unless and until several enlightened researchers partly being enlightened by the growing literature on corporate governance and partly because of accumulated experiences from the cooperative sector began to deliberate on this point. Since governance involve not only catering to the interests of the main stakeholders (patron-members in case of cooperatives), but also an act of balancing the interests of other stakeholders, any meaningful discussion on governance can't be conducted without reference to stakeholder cooperation in general, this section purports to summarize the main tenets of thought on cooperative governance as well as stakeholder cooperation, even though most of the relevant points are already touched upon in course of discussion on evolution of cooperative theory in the preceding section. Cornforth (2004, 2016) – a prolific writer on the subject - has studied corporate governance by outlining six predominant theories on corporate boards, besides examining their applicability to cooperatives. He has tried to apply the tenets of several theories in the context of cooperatives (summarized in Table 2.6), as follows:

Following the **Democratic or association perspective called the democratic model**, he argues that this governance perspective *“suggests that the job of board members is to represent the interests of members of the organization. The role of the board is to resolve or choose between the interests of different groups and set the overall policy of the organization, which can then be implemented by staff. Central to this view is the idea of a lay or non-professional board, where anyone can put himself or herself forward for election as a board member. Expertise may be desirable but is not a central requirement...”* (Ibid, p.3).

While applying the **Agency theory or the compliance model**, he *“suggests that a majority of directors of companies should be independent of management, and that their primary role is one of ensuring managerial compliance – i.e. to monitor and if necessary control the behavior of management to ensure it acts in the shareholders best interests....This suggests that for co-operatives and mutual the boards is the most important means that members have of trying to control managerial behavior, but at the same time these boards have to operate in a context where it is likely to be more difficult to exert influence”* (Ibid, p.3)

While applying **Resource dependency theory or the co-optation model**, his conclusion is that *“this perspective raises a potential problem for co-operatives and mutual associations. There is no guarantee that those members elected to the board will have the skills the board needs to be effective”* (Ibid, p.4).

In the context of the **Stewardship or partnership model**, his observation is that *“from this perspective the board is part of both the organization and its environment. The role of the board is one of boundary*

spanning. Board members are selected for the important external links and knowledge they can bring to the organization, and to try to co-opt external influences. The potential for co-operatives to use their boards to 'manage' external dependencies is much more constrained than private companies, as board members have to be elected from the co-operatives membership. However, it is usually possible for co-operatives to co-opt board members to bring in people with additional experience, contacts or skills, although it is unclear how commonly this strategy is used (Ibid, p.5).

While talking about the relevance of the **Stakeholder theory or stakeholder model**, he is of the opinion that it *"is based on the premise that organizations should be responsible to a range of groups (or stakeholders) in society other than just an organization's owners or mandators. By incorporating different stakeholders on boards it is expected that organizations will be more likely to respond to broader social interests than the narrow interests of one group. This leads to a political role for boards negotiating and resolving the potentially conflicting interests of different stakeholder groups in order to determine the objectives of the organization and set policy"* (Ibid, p.5).

On the relevance of the **Management hegemony theory or the 'rubber stamp' model**, he concludes, *"From this perspective the board ends up as little more than a 'rubber stamp' for management's decisions. Its function is essentially symbolic to give legitimacy to managerial actions"* (Ibid, p.9).

After reviewing the various theories, he concludes that one unifying theory is not likely to be useful given the complexities involved. Instead he argues for an approach that brings together multiple theories and highlights the important paradoxes and tensions that the cooperative boards face. He identifies three key paradoxes implying three sources of tension in cooperative boards, which need to be brought out to improve understanding of the reality within such organizations. He also acknowledges that a paradoxical perspective is not always necessary, as a focused approach may 'balance' these tensions. The three key tensions that influence the operation of cooperative boards are:

- i) The tension between board members acting as representatives for particular membership groups and experts charged with driving forward the performance of the organization;
- ii) The tension between the board roles of driving forward organizational performance and ensuring conformance, i.e., that the organization behaves in an acceptable and prudent manner;
- iii) The tension between the contrasting board roles of controlling & supporting the management.

The elected nature of cooperative boards is an issue which cannot be ignored. However, there is no guarantee that the board members and the CEO would possess required skills mix or knowledge to evaluate management decisions. Low levels of education, knowledge and awareness gap aggravate such

problems. The use of co-opted members is also a suggestion to address the skill gap. He suggests that multi-stakeholder cooperative models may help to address the board deficiencies. The area of cooperative governance being relatively under researched, his opinion is that more comparative studies are needed to systematically understand governance of cooperatives across different sectors and regions.

Table 2. 6: A Comparison of Theoretical Perspectives on Organizational Governance

Theory	Interests	Board Members	Board role	Model
Agency theory	‘Owners/members’ and managers have different interests	‘Owners/members’ representatives	Conformance: -safeguard ‘owners’ interests -oversee management -check compliance	Compliance model
Stewardship theory	‘Owners/members’ and managers share interests	‘Experts’	Improve performance: -add value to top decisions/strategy - partner/support management	Partnership model
Democratic perspective	Members/the public contain different interests	‘Lay/member’ representative	Political: -representative member -make policy -control executive	Democratic model
Stakeholder theory	Stakeholders have different interests	Stakeholder representatives	Political: -balancing stakeholder needs -make policy -control management	Stakeholder model
Resource dependency theory	Stakeholders and organization have different interests	Chosen for influence with key stakeholders	Boundary spanning: -secure resources -stakeholder relations -external perspective	Co-optation model
Managerial hegemony theory	‘Owners/members’ and managers have different interests	‘Owners/members’ representatives	Symbolic: -ratify decisions -give legitimacy (managers have real powers)	‘Rubber stamp’ model

Source: Reproduced from Cornforth (2004), p.12

During the UN declared Cooperative Year, 2012, cooperatives started focusing on ends accomplishment, and good processes and systems to achieve those end. Based on Vincent and Elinor Ostrom’s work, a Political Theory and Policy Analysis Workshop was conducted at Indiana University during Spring, 2013, which gave birth to the Four Pillars of Cooperative Governance Model (Scholl and Sherwood, 2014). Their suggested four pillars are:



Four Pillars of Cooperative Governance

The Four Pillars is a model that clarifies different components of cooperative-specific governance by defining four distinct roles and responsibilities. The Four Pillars are:

- Teaming
- Democracy
- Strategic Leadership
- Accountable Empowerment

Source: Reproduced from Scholl and Sherwood, 2014, p.18.

Teaming: Successfully working together to achieve common purpose;

Accountable Empowerment: Successfully empowering people while at the same time holding them accountable for the power granted;

Strategic Leadership: Successfully articulating the cooperative's direction/purpose and setting the organization up for movement in this direction; and

Democracy: Successfully sustaining a culture in which people choose meaningful ways to participate for both individual and common good.

No matter what the level is – whether in the board room, or in the workplace, or at the level of members, everyone in a cooperative must be *“responsible for working together effectively, to be accountable and able to empower others, be focused on purpose, and participate in ensuring a healthy democracy”* (Ibid, p.19).

Ernst and Young (2012) in a study titled ‘Enlightened Cooperative Governance’ has identified three main reasons why in spite of significant contributions by co-operatives and mutual to the world economy remains poorly understood and perennially : (1) Lack of advocacy to policy makers about the role of cooperatives and mutual, which leads to under- representation in policy and regulatory environments; (2) Neglect by academics as a subject of study, related to changing role of economists who emphasize top-down solutions; and (3) Lack of cohesive sector-wide communications strategy to the general public, members, governments, and regulators. So, it stresses the need for a complex

balancing act between pillars of success of the cooperative model, on the one hand, and an agile governance structure, on the other. It argues that its governance must show the way in which directors, and the members who elect them, should be able to establish and guide the overall direction of the cooperative to ensure its success as a solid business and as a strong cooperative community.

It has identified three pillars of a successful cooperative model: promoting member proximity, branding with social impact, and competitiveness of cooperative products and services, and then proceeded to find out the components of an agile governance structure for cooperatives, which can ensure success. In this context, they have also identified the common barriers to enlightened governance – a list of factors, which need to be suitably tampered through appropriate policy interventions and action points on the part of the government and/or the direct stakeholders of cooperatives. This list encompasses (i) confusion about the role and mission of the cooperative or mutual; (ii) lack of clarity around the purpose of governance, and board's role; (iii) risk of entrenching power among a select group; (iv) emerging conflicts between the principles of profitability and social objectives; (v) oversight and weak control mechanisms; (vi) lack of clear rules on how to adapt to changes in the market; and (vii) misunderstanding that cooperatives being private sector enterprises are free to pursue unconstrained profit maximization.

To build up an agile governance structure, Ernest and Young (2012) has the following pieces of advice:

1. Board members should be, for the most part, independent. They should not have any significant relationship, direct or indirect, with the senior management that could reasonably interfere with the exercise of independent judgment.
2. When non-members are inducted into the board to have an outsider's point of view, or simply to access specific expertise that the board otherwise lacks, the organization without the ability to change its statutes or rules, can name those new members as "guest" board members.
3. For building thoughtful safeguards to protect the co-operative's members' and their directors' independence, disclosure and review of each board member's financial interests in the co-operative can be a simple yet effective safeguard to balance leading practices and member involvement. This type of transparency can also establish and build trust among the members.
4. Other safeguards include defining the diverse skills and expertise required, sharing and clarifying values to guide decision-making, adopting a code of ethics, establishing clear conflict policies and, in many cases, receiving training on the roles and responsibilities of board members.
5. The roles and responsibilities must be clearly defined and segregated for CEOs and board chairs.

6. Secondary cooperatives, such as federations of co-ops with their own co-operatives supplying pooled services may opt for combined chair/CEO roles for greater effectiveness and stronger member communications, but in those cases, strategy must be defined by the board and chair/CEO, while operations must be managed by a senior executive.
7. Savvy co-operatives and mutual must build explicit definitions for the roles and responsibilities of board directors, and those of management.
8. Organizations should strive to communicate clearly and frequently regarding available board positions and corresponding duties and areas of responsibility to clearly define the kind of expertise and experience best suited to the role, which supports informed membership to be better equipped to elect candidates with an appropriate knowledge base.
9. A careful monitoring of board composition will ensure a clear understanding of gaps and excess capabilities. This feeds a strategic approach to board and talent development that can guide member participation and knowledge-building both inside and outside of the organization.
10. Co-operatives and mutual should explore whether formal or informal training for current or potential board members can address knowledge gaps, especially in a fast-paced global context where legal, accounting and market changes are evolving rapidly. This offer of skill development will help attract member participation and foster proximity – while achieving governance objectives.
11. A growing number of companies are recognizing the importance of having board members who bring a wide range of perspectives and experience to the table. This is a trend of critical importance emerging in the corporate sector, which is equally relevant in co-operatives and mutual. These include gender, ethnicity, international experience, non-traditional knowledge areas and more.
12. Rather than focus on the size of the board, a more successful approach may be to carefully craft a board that features a combination of diverse skills, expertise and perspectives that can help drive effective decision-making.
13. Closely related to the issue of board expertise is length of service on a board. Though the average term of office for corporate board directors varies widely depending on the specific market, leading practices in corporate governance generally appear to favor limits on the number of consecutive terms a director can serve on the board. In co-ops, renewable terms of two to three years are typical.

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14. Continuity is important for sound guidance, but at the same time, co-operatives and mutual will benefit from a regular influx of new ideas and voices. This will also allow greater opportunity for direct member involvement in shaping the organization.
 15. Progressive organizations consider succession planning an essential element in good governance, creating procedures for recruiting potential new board members and establishing intern officer programs to attract young talent, and using structural opportunities like committees and working groups to cultivate new talent. This is especially true if there are a significant number of board members approaching retirement.
 16. Mentoring and training – whether formal or informal – are essential ingredients in fostering both the expertise for potential or new board members, and passing along the organizational history and “board memory” that supports continuity of operations and vision.
 17. Co-operatives and mutual rely on a high degree of trust and confidence among their members. Full and transparent disclosure on sensitive issues such as director competency, director attendance and board accountability is an important way to sustain this trust. It is also a valuable tactic that offsets the risks inherent in having only members as board directors. It fosters an environment of transparency and ethical commitment that supports director accountability. Transparency toward members can help support a strong connection between the board and the community it serves.
 18. A cooperative or mutual may use specific tools dedicated to supporting good governance – e.g., a reference document on shared values and a code of

What Ernest and Young (2012) has concluded in this context is quite significant and deserves special mention to flag the importance of cooperative governance:

“By adopting a solid governance structure that features the leading practices of corporate firms, augmented by tools and tactics that serve the unique purpose and drivers of the co-op environment, co-operatives have an opportunity to develop and grow as a business model – one that can exemplify the best of what competitive economies bring with values that ensure that shareholders, entire communities, nations and peoples benefit together. In pursuing enlightened governance, co-operatives and mutual can inspire confidence in the marketplace, elevate their status and reputation as solid and unique business entities and contribute to building competitive economies and cohesive communities. The key to success lies in establishing the framework for effective growth and financial viability, while sowing the seeds for even better cooperation in the future” (Ibid, p.15).

We now turn to review of empirical work on cooperative governance, though it is limited which further limits definitive conclusions on how governance impacts the cooperatives. Linda (2007) has however provided some evidence across Africa, Asia and Latin America, though she has rightly qualified that the subject of cooperative governance is not free from legacy issue in many developing countries as the cooperatives there are frequently subjected to government control and interventions. As observed by ILO, the developing world has experienced many decades of state sponsored cooperatives and their regulations, which have impacted agricultural production and productivity but certainly at costs (ILO, 2000). This has been aptly described as a system of cooperatives without cooperators. These cooperatives have been the sole suppliers of agricultural produce to the State Marketing Boards, under a price control mechanism. Cooperative Ministries had the power to intervene in the board matters by appointing directors and managers, controlling business operations and making membership of cooperatives compulsory. The World Bank study on cooperatives pointed out that these policies are in part are the result of donor support (Hussi et al, 1993). The situation began to change following structural adjustment programs adopted by many developing countries. Subsidies were withdrawn, price controls were lifted and the cooperatives faced competitions in the market place, and the cooperatives lost their leadership position in the market. The ILO recognized the issue and came out with recommendation on promotion of independent and autonomous cooperatives. The aim was to provide an appropriate framework which was universal in its application, recognized cooperatives as private sector institutions controlled by members and operated within competitive markets whilst sustaining their identity (ILO, 2000).

The African experience of cooperative reforms relating to state support to the cooperatives is significant. While in Uganda and Cape Verde there was no interference from the state, Egypt and Nigeria had significant interferences from the government. Legislative liberalization has been more recent in South Africa, Ghana, Kenya and Rwanda. In Kenya, the impact of state withdrawal of control was negative with inability to hold election, corruption, mismanagement and theft, so much so that government intervened in 2004 with a new Act which reintroduced state regulation. Uganda also faced similar experiences. The cooperative movement has been rebuilding with support from donors being channeled to primary societies via Uganda Cooperative Alliance (UCA). The lessons learnt is that democratic governance and accountability are the key factors for success in the cooperatives. This has been aided by the emergence of a better educated membership which has resulted in the election of directors with higher levels of literacy and related skills. As a result, overall quality of the cooperative board has improved.

The experience of cooperatives in South Asia including India is no different from that of Africa. The

cooperatives of this region remained dependent on state support and state controlled, externally structured and linked to parastatal enterprises. The central challenge for cooperative governance remains how to balance the principle of democratic control and professional management, while remaining maintaining their autonomy and independence. Accordingly, the cooperative governance measures for primary cooperative need to address the following issues:

- An open and easily understandable election procedure;
- Elected office bearers should be made fully aware of their duties and responsibilities through education and training, and involvement in the management of their cooperative;
- Clear division of legal responsibilities between the BOD and paid managers should be set in the bylaws;
- Internal and external audit should be conducted on a regular basis and the audit report should be thoroughly evaluated by the board;
- A cooperative code of best practice with the objective of helping a cooperative to redefine the duties and responsibilities of the governing bodies and the management, to make governing and control issues more transparent, this should be developed and adopted (Taimni, 2001).

As expected, there is considerable overlap between the measures suggested by Taimni (2011) and Ernest and Young (2012). There are also some issues and challenges in terms of cooperative governance that are specific to cooperatives in the developing countries.

- Extremely low level of participation of the women as members and in the governance structure in the cooperatives;
- There is a need to develop appropriate training and support for the directors in the context of relatively low levels of literacy and related skills;
- Conflict between the members and the BOD; and
- Long established practice of placing government nominees on cooperative boards.

As already pointed out at the beginning of this section, governance issues can't bypass the issue of stakeholder cooperation. So, in the context of detailed discussion on cooperative governance, most of the stakeholder issues are also touched upon. So, at this stage, I would like to add only a few points very much relevant for Afghanistan.

Cooperatives having different stakeholders, most governance issues cause tensions to the cooperative stakeholders, while for a country like Afghanistan which is highly dependent on foreign aid, resource

dependency and donors as a stakeholder could also be an issue.

Second, following Frooman's widely referenced definition (Frooman, 1999) stakeholders are identified as 'any group or individual who can affect or is affected by the achievement of the organization's objectives' (Freeman, 1984, p.46). In cooperatives, stakeholders include the internal actor - members, Board of Directors and staff, besides the external actor such as suppliers, customers, investors, providers of capital and also their geographic communities (Allen, 2007). It can also include government officials and donors. In co-operatives, as in investor owned firms, external actors may also play important governance roles. In UK co-operatives there is a growing interest in multi-stakeholder boards, which include external actors (Spear et al., 2009). This can result in some board directors acting in the interests of their stakeholder group rather than in the interests of the enterprise. The history of cooperative development in Afghanistan shows that important external actors in the governance of cooperatives are government officials and donors, besides others. Although cooperative law in Afghanistan limits membership of the board to members but government officials and donor representatives may still attend and play important roles in General Assembly meetings. This is in contravention to the cooperatives principles and organizational protocol, but reality checks would reveal that they attend the Board meetings as observers and influence the decision making processes. It is also reported that the donor presence in the Board meeting also affects independent decision making and autonomy of the cooperative institutions. This shows their continued high influence in many cooperatives by possessing attributes in all three areas (power, legitimacy and urgency).

In the resource dependency theory organizations are placed within their wider environment and their dependence on other actors and organizations for survival and success is acknowledged (Cornforth, 2004). The leverage that this dependence then gives to the actor over the organization and its internal stakeholders is critical to understanding this theory (Frooman, 1999). Here the role of the board is to manage the co-operative's dependence on others by ensuring good relations with key external stakeholders in order to get the resources they need (Hillman and Dalziel, 2003) both for the co-operative and for individual members, and to respond to external changes. This can include working with external stakeholders such as banks or other investors and donors, or private farm input suppliers. It can also include co-operatives working with other co-operatives for shared outcomes through the federating structure, as well as with non-members who may be customers of the cooperative's products. The relevant question in the context of Afghanistan is to find out whether the external actors have really supported or undermined the governance and operations of the co-operative in resource strapped communities of rural Afghanistan.

Section 2.7 Civil war, Causes of war and conflict on natural resource management

Introduction

Given the perspective of Afghanistan, as mentioned earlier, which has been passing through a state of policy paralysis, weak governance, absence of credible institutions, poor government finances and weak capacity of the government, contributed by sustained civil war of over 4 decades, it may be necessary to turn our attention briefly towards some historical evidence of civil war that are available in the literature of political history of civil war or in some cases, as description of war economics. Though these discussions are not directly related to the subject of our thesis, yet it was felt that given the legacy of Afghanistan and its socio political cum ethno cultural complications, it would probably throw some knowledge on the dimension of civil war and how peace efforts and policy measures are becoming ineffective to help countries stabilize from the perpetual fear of internal strife. This section is introduced principally with the above background in mind. However, a line of caution may be made at the beginning of such discussions. The historical contents on war conflict, civil war or intra state or inter-state war are prolific, and it would fall short of our expectation to provide an account on these themes in the context of present discussion and therefore a trade-off needs to be made, which is admittedly the limitation and scope as well of the present analysis. The purpose however will be served if the empirical evidence and analytical reasoning could be connected with the conditions prevailing in Afghanistan to enable the reader to have a broad based perspective of country's issues. More specifically, if we could draw some lessons from the world experience of civil war which can be related with the context of Afghanistan's background as also which could throw some light on the governance issue of the agricultural cooperatives through the analysis of overall post war conditions of the country that have been causing erosion on the issues like enabling legal system, institutional governance, civil liberty, civil right, government finance, economic development and related aspects.

There is yet another way the analysis of war phenomenon could be related to the theme of the study. We begin with a hypothesis that war related matters are unrelated with the theory of cooperative governance. It would therefore be quite a distant possibility to connect these two apparent dimensions. However, it would be interesting if some of the civil war related causes, as evidenced from history of war literature, can be used as proxy to understand the conflict of Afghanistan. With this premise in mind, I make a modest attempt to discuss some of the dimensions of civil war, highlight its economic causes from empirical observations, link them with Afghan issues and then assess if some of them could have either direct correlation or they could be deemed as proxy to explain our issues.

This section is organized with a discussion on dimension of civil war, with an example of sub-Saharan Africa following end of Cold war, where the entire continent had been fighting wars with inter connected impacts across many neighboring countries, which becomes an entry point for our discussion. We then go over to causes of civil war, the theories that are empirically proven and tested, and then describe some specific dimensions of Afghan Civil war to understand the complexity and how the rebel groups have developed resilience to sustain the war supported by not so friendly neighbors with their networked support, both financially and logistically, harboring cross border terrorism. The discussion then centers around linking empirical causes of civil war, as evidenced through global analysis, with Afghan ground realities specifically with the economic backwardness, multi-cultural ethnic strife, dispute relating to land, water sharing conflict among the neighbors, internal and external hands that play out in extraction of mineral resources, timber trade, drug trafficking and other conflicts caused by natural resource management.

The lessons that we learn from analysis of these cases provide us a broad contour as to how effective or ineffective is the institutional framework, governance, collective action, social mobilization, trans border tension, trust and confidence within the government machineries, foreign aid providers and the other stakeholders responsible in peacebuilding and national development. These analyses would give us lead to understand governance issues that would be discussed through almost all chapters of the present thesis (more specifically, chapters 4, 6, 7 and 8). The take away lessons that we derive from these analyses also help us to understand the conditions that prevail on the agriculture cooperative sector especially their inability to effect any visible impact on the rural society or the commodity in which these coops are working despite their numeric strength (>3000 agriculture coop, discussed in detail in Chapter 4).

Dimension of civil war

Many countries of sub-Saharan Africa bear testimony of violent intrastate war during the period 1960 and 1990 which has caused millions of civilian death and displacement of people. These countries have suffered from abject poverty, political instability, retarded economic growth, inadequate service provision and challenges to development deterring enhancement of human security (Bowd and Chikwanha 2004). Interstate conflict takes place when there are social changes in the country. If a particular country has the capacity to manage social changes then there less chances of conflict. The characteristics of conflict are summarized as under.

Internal battles to gain control of an existing state;

Ethnic groups seeking greater autonomy or striving to create an independent state for themselves;

Failed states', where the authority of a national government has collapsed and armed struggle has broken out between the competing ethnic militias, warlords or criminal organizations seeking to obtain power and establish control of the state; and,

Impoverished states where there exists a situation of individual hardship or severe dissatisfaction with one's situation and the absence of any non-violent means for change (Walter 2004).

The violent conflict of any nature results in explicit material and human costs to a society. Loss of material involve physical infrastructure like roads, bridges, schools, hospitals and administrative buildings, and often mines are laid, making it difficult to engage in infrastructural reconstruction. Resources such as minerals, along with cash crops, land, irrigation projects are destroyed or appropriated by conflicting factions in order to enable the continuation of their war efforts while reducing the prospects for economic revival in the post-conflict difficult. The physical devastation of conflict has disastrous effects on economic development through reduced production, falling exports, increased debt and decreased social expenditure. Although the infrastructure and the economy are both shattered by conflict, it is the human and social costs of conflict that are devastating. Education systems are paralyzed, health systems are crippled, institutions that are backbone of any society for enforcing governance are destroyed and collective organizations and self- help group that have direct bearing on the development of society are ruined. As trust is diminished, cooperation and communication reduce and fear increases resulting in the stagnation of societal activity and development. The societies that emerge out of war face a range of urgent, interconnected problems on all fronts, not too dissimilar to situations of natural disasters. However, it is the destruction of relationships, including the loss of trust, dignity, confidence and faith in others that proves the most far reaching, potent and destructive problem and the most difficult to address. It has the potential to undermine possible solutions to a wide range of other issues (Barakat 2005).

Sierra Leone, a country in the sub-Saharan Africa, has witnessed complex war in the 1990s, involving internal and external actors, causing 50,000 to 75,000 loss of lives and half of 4.5 million population fleeing the country. Among the conflicting views of the reasons of conflict are predominantly tribal suspicion where absence of dialogue among the many warlord groups and ethno fractions exacerbated conflict while some opposite views have also emerged in favor of interpreting violence as simply a matter of resources (diamonds, oil), where international actors consciously plan interventions according to their interests. This last thesis has been widely accepted by mass media and even some sectors of the civil society and the academia (Mateos 2010).

Like almost all African wars since the Cold War, Sierra Leone's armed conflict had an internal or

intrastate character. In fact, most of its causes, dynamics, actors and consequences can be explained only by taking its regional and international characteristics into consideration. Regionally, the parts played by countries such as Guinea, Côte d'Ivoire, Burkina Faso, and Liberia in particular were absolutely decisive, both in the origins of the conflict and in its perpetuation. These governments, motivated by their political and economic interests, decided to support the actors and even to promote the emergence of new ones during the conflict. This was also an interlocked war involving Sierra Leone and Liberia's relationship in a manner that it was locked like a pair of dead ringers. Neither country could achieve substantial peace if war like conditions prevailed in other country (ibid).

According to war analysts, this war had networked actors labelled as Primary actor, Secondary actor and Tertiary actor. These actors are nonetheless having complex relations within their constituent units which make the conflict far more difficult to resolve, and extend the conflict resolution process. It would be necessary to narrate briefly all these actors, complexities within them and understand conflicting groups that are involved in the conflict dynamics.

In as much as primary actors are concerned, there were two important alliances- - one that had purportedly government allegiance but they too had several alliances, and the second alliance was sponsored by Revolutionary United Front (RUF), a rival alliance. Under secondary actors, there were regional countries Guinea, Nigeria, Liberia, Libya, Burkina Faso and their leaders used to nurture their personal ambitions, besides gaining control over diamond mines. The "arms-diamond –violence" triangle had played their part in the civil war. The diamond companies like De Beers were also active in the conflict of Angola (Reno). There were foreign firms linked with security companies that received favors in mining and marketing arrangement of diamonds, British Business, J & S Franklin, Branch Energy etc. (Global Witness, 2002). The tertiary actors were represented by those countries that had intervened in the conflict resolution (represented by UK, USA, Germany and France). On war analysis and characterization of conflict among different actors in the context of Sierra Leone, it was found that since the objectives and goals and anticipated outcome of different elements within the three actors were too complex with far reaching network connections which otherwise prolong the duration of conflict. Conversely, the resolution from such conflict cannot be easily managed when the stakeholders are too widely and deeply intertwined.

If these are the observations of the war strategists or specialists in war analysis, it will be useful to keep these observations at the back of mind to explain the Afghan case, to the extent possible, especially the complex role that above 3 actors play in prolonging the war and jeopardizing the possibility of a

peaceful conflict resolution for wellbeing of the Afghan society.

While Sierra Leone is a specific case analysis, it is necessary to broad base our understanding of the economic causes of civil war from a theoretical perspective so that a more generalized pattern emerges which then could be connected to Afghanistan perspective.

Economic causes of civil war

Paul Collier and Anke Hoeffler (1998) have analyzed economic causes of civil war following a framework prepared by (Singer and Small, 1982, 1994) utilizing a comprehensive data set of civil wars and attempted to explain why they occurred in terms of underlying economic variables. The analytic framework for the occurrence of civil war is drawn from Grossman & Azam (1995). According to them, war occurs if the incentive for rebellion is sufficiently large relative to the costs. The objective of rebellion is either to capture the state or to secede from it. In general, the incentive for rebellion is the product of the probability of victory and its consequences.

As Grossman argues, “typically, the military technology options available to rebels are fairly narrow, whereas the government faces a wide range of possible technological responses of increasing cost. For example, rebels seldom have the option of aerial combat. The government has the airfields from which to mount such combat and its capacity to use them depends upon its financial resources. In the limit, for a given population the military capability of rebellion is unrelated to the domestic economy (for example, being financed externally), whereas the military capability of the government depends upon its military expenditure.” (ibid 1998).

According to Singer & Small’s data series, the potential for analysis of data could cover a period of more than a century, data on major variables is only available for more recent periods. Data on per capita income and population size for the full sample is available from 1960 and for natural resources from 1965. Ethno-linguistic fractionalization is measured as of the early 1960s. This yields a sample of 98 countries of which 27 had civil wars of varying durations during the period. They used probit and tobit regressions to investigate whether the above variables explain the occurrence and duration of civil war during the period 1960-92. The main observations are as under:

The higher is per capita income on an internationally comparable measure, the lower is the risk of civil war. This is because due to the effect of higher income, opportunity cost of rebellion rises.

The effect of natural resource endowments is non-monotonic (i.e, non- linear). Initially, increased natural resources increase the risk of war. This is interpreted as being due to the taxable base of the

economy constituting an attraction for rebels wishing to capture the state. However, at a high level, natural resources start to reduce the risk of war. We interpret this as being due to the enhanced financial capacity of the government, and hence its ability to defend itself through military expenditure, gradually coming to dominate.

The larger is the population the greater is the risk of war. This is being interpreted as being due to the increased attraction of secession.

The authors postulated that the extent of the coordination problem faced by potential rebels would influence the risk of war. This has been used as a proxy of coordination costs by ethno-linguistic fractionalization, and by population size. Perhaps the most interesting result concerns ethno-linguistic fractionalization, measured by an index on the range 0 to 100. Both economists and political scientists have postulated that such fractionalization is unambiguously conflict-enhancing.

Easterly & Levine (1997) have however established that greater fractionalization reduces growth, but have interpreted this as being due to the greater risk of conflict in fractionalized societies. Analogously, ethnic division is the most common political explanation for civil war.

Paul Collier (2000), in a subsequent paper have argued that economic causes of the civil war and argued that the risk of civil war has been systematically related to a few economic conditions such as dependence on primary commodity exports and low national income. Conversely, and astonishingly, objective measures of social grievance, such as inequality, lack of democracy, and ethnic and religious divisions, have had no systematic effect on risk. He argues that this is because civil wars occur where rebel organizations are financially viable. The Michigan Militia was unable to grow beyond a handful of part-time volunteers, whereas the Revolutionary Armed Forces of Columbia (RAFC) in Colombia has grown to employ around 12,000 people.

Analyzing Afghanistan civil war in the light of theoretical understanding of civil war

With the above perfunctory understanding on civil war and their causes in some of the regions of the World, we now turn our discussion towards Afghanistan to understand the intensity and dimension of ongoing civil war since 2001, and then examine if some of the reasons that we have come across through literature review elsewhere in the world have any resemblance locally and if so, how do we explain them to appreciate causes of prolonged civil war and how some of the causes could explain direct or indirect effect on cooperative governance. It must be mentioned that though we discuss civil war phenomenon of Afghanistan subsequent to the period 2001 and afterwards, the nation is actually fighting the war since 1979, when the Communist Russia invaded the country and took control of the nation.

The Civil war since 2001

First, we discuss about the background of the civil war, human dimension of war in terms of casualty, wounded civilians, and war affected forced displacement. After the Taliban government refused to hand over terrorist leader Osama bin Laden in the wake of al-Qaeda's September 11, 2001 attacks, the United States invaded Afghanistan. The Taliban leadership quickly lost control of the country and relocated to southern Afghanistan and across the border to Pakistan. From there, they had waged an insurgency against the Western-backed government in Kabul, international coalition troops, and Afghan national security forces.

In the sixteenth year of the war, there has not been any trace in the reduction of conflict with only 60 percent of Afghan districts under the control of the national government, 30 percent of the districts are contested while the remaining 10 percent are under the control or influence of the Taliban.

Over the past nearly 15 years, approximately 111,000 people have been killed and more than 116,000 people have been injured in the war in Afghanistan (Table 2.7). Of these, more than 31,000 of the dead are Afghan civilians. These numbers are approximations based on the reporting of several sources. The focus was on direct deaths and injuries caused by wartime violence. Indirect deaths, due to the effects of war damage to infrastructure and livelihoods, and usually more numerous than direct deaths. Afghanistan has received more than 100,000 Pakistanis fleeing a military operation that began in North Waziristan in June 2014. In June 2016, Afghanistan had 1.4 million refugees inside its borders, and nearly 1 million Afghans were internally displaced. An additional 2.6 million Afghans are currently refugees in more than 70 countries. The largest number of Afghan refugees are living in Pakistan (1.5 million people), and Iran (nearly a million people). Further, there is a toll in indirect death and illness

due to the destruction of infrastructure and the hardships of displacement (Crawford 2016).

The war has cost the United States more than \$800 billion in direct appropriations to the State Department and Department of Defense.¹⁰ As the Costs of War project has documented, there are many other economic costs in the US, Afghanistan and Pakistan.¹¹ The international community spent an additional 240 billion Euros to build Afghan security forces.

Afghanistan's 2014 presidential election resulted in political deadlock, requiring two rounds of voting and an international audit to address allegations of voter fraud. In September 2014, U.S. Secretary of State John Kerry mediated an agreement to form a national unity government led by Ashraf Ghani, who assumed the position of President, and Abdullah Abdullah, who assumed the position of Chief Executive. Ghani and Abdullah continue to face political deadlock jointly governing a country plagued by Taliban-led violence. The two-year agreement that initially formed the national unity government expired in September 2016, raising ongoing concerns over potential political instability as well as serious security challenges. So, political instability along with mounting insurgency and terrorist attacks in most recent period continues to plague the country from a visible long term peace and stability.

¹⁰ These are the amounts appropriated by the Congress to the Departments of State and Defence since 2001. Additional economic costs of this war are associated with additional Pentagon and Homeland Security spending, the costs of caring for veterans, and interest on borrowing to pay for the war

¹¹ See the following Costs of War papers on economic costs to the U.S.: Crawford, N.C. (2014, June 25). US Costs of Wars Through 2014: \$4.4 Trillion and Counting: Summary of Costs for the U.S. Wars in Iraq, Afghanistan, and Pakistan. Retrieved from <http://watson.brown.edu/costsofwar/files/cow/imce/papers/2014/US%20Costs%20of%20Wars%20through%202014.pdf>; Garrett-Peltier, H. (2011, June 13). The Job Opportunity Cost of War. Retrieved from <http://watson.brown.edu/costsofwar/files/cow/imce/papers/2011/Job%20Opportunity%20Cost%20of%20War.pdf>; Lattanzi-Silveus, L. (2015, January 1). Costs of the war in Afghanistan and Iraq for the State of Rhode. Retrieved from <http://watson.brown.edu/costsofwar/files/cow/imce/papers/2015/Costs%20of%20the%20Wars%20in%20Afghanistan%20and%20Iraq%20for%20the%20State%20of%20Rhode%20Island.pdf>; Smith, B. (2015, January 3). The Cost of Iraq and Afghanistan Veterans' Care to Texas. Retrieved from <http://watson.brown.edu/costsofwar/files/cow/imce/papers/2015/The%20Cost%20of%20Iraq%20and%20Afghanistan%20Veterans%20Care%20to%20Texas.pdf>

Table 2. 7: Estimates of Afghan Killed and Injured Directly in War 2001-16

Description	Killed	Wounded*
Afghan Civilians 2001-2015	29,818	37,412
Afghan Civilians Jan-June 2016	1,601	3,565
Afghan Military Police	30,470	17,000
Taliban & other Militants	42,100	19,000
US Forces (through July 26, 2016)	2,371	20,179
US Allies (through July 26, 2016)	1,136	3800**
Contractors Reported by US DOL	1,650	15,348
Unreported Contractor Estimate	1,890	Unknown
NGO Humanitarian Workers	382	299
Journalist	24	Unknown
Total	111,442	116,603

*Incomplete

** Included UK, Canada, French & German wounded through 2014

Source: Crawford, N. C., (2016), Costs of War, Watson Institute, Brown University, p -9 (reproduced)

Formidable Radical power

The civil war history of Afghanistan would remain incomplete without a review of understanding how the Taliban group has repositioned themselves and gained incremental physical control of certain territories offsetting the combined might of US and allied forces including the Afghan national military power. This however does not undermine the positive impacts that the country has realized in certain vital physical and social infrastructure inducing socio economic transformation among those sections of the population who had suffered from excessive persecution, repressive social norm and orthodox outlook.

Farrel (2018), in a recent paper, has identified two sets of factors that explain the relative success of insurgencies: the availability of social resources and the elements that drive and enable military adaptation. Drawing on a large number of original interviews with Taliban leaders, cadre, and field commanders, it has demonstrated how these factors combined to make the Taliban essentially unbeatable. Within five years of Taliban retreat, the Taliban had regrouped and returned in large numbers to southern and eastern Afghanistan. In the decade that followed, the new Afghan state and its Western backers were unable to stop a Taliban insurgency from steadily gaining more ground across the country. In 2016, the Taliban seized Kunduz city in northern Afghanistan for a second time, having

done so the year before as well. The Taliban had also come close to capturing the provincial capitals of Helmand and Uruzgan in the south and Farah in the west.

When applied to the Afghan Taliban, what is revealed is an insurgency that has a deep well of social resources and that has, over time, improved its ability to innovate and adapt. Taken together, these factors point to an insurgency that is highly resilient and one that is unbeatable by military means alone. Jerney Weinstein, political scientist, points to the importance of “social endowments” in mobilizing people to join or support an insurgent movement. Social endowments include pre-existing networks, common identities, shared beliefs, and norms of reciprocity, all of which facilitate cooperation and collective action, especially in situations with short-term costs and only the promise of long-term gains.¹²

In his major study on the cohesion of insurgent organizations, Paul Staniland also highlights the role of pre-war social networks, noting that insurgent leaders often “socially appropriate existing structures of collective action for new functions.” Staniland distinguishes between two types of structures: horizontal networks and vertical ties.¹³

Horizontal networks link people who may be dispersed geographically through common ideological beliefs or professional identities. Political parties are a prime example. Insurgent movements often originate from or incorporate political parties. One example is the peasant insurgency in Nepal from 1996 to 2006, which sprang from the Maoist wing of the Communist Party of Nepal.¹⁴ Vertical ties, on the other hand, are pre-existing linkages between insurgent groups and local people, often based on common ethnic, tribal, or familial networks. These make it possible for insurgent groups to bind local communities to their cause and to extract resources from and exert control over them. Thus, “bonds of family and kinship” were crucial to the success of the Naxalites in mobilizing peasant support for their Maoist insurgency in eastern India.¹⁵

At the core of the Taliban movement is a horizontal network, based on common religious schooling and shared military experience that endows the group with a powerful, unifying ideology and worldview. The Taliban movement was founded on a network of Deobandi madrassas in Pakistan within which the

¹² Weinstein, *Inside Rebellion*, 48-49.

¹³ Paul Staniland, *Networks of Rebellion: Explaining Insurgent Cohesion and Collapse* (Ithaca, NY: Cornell University Press, 2014).

¹⁴ Madhav Joshi and T. David Mason, “Between Democracy and Revolution: Peasant Support for Insurgency Versus Democracy in Nepal,” *Journal of Peace Research* 45 (2008): 765-82, <http://www.jstor.org/stable/27640768>.

¹⁵ Alpa Shah, “The Intimacy of Insurgency: Beyond Coercion, Greed or Grievance in Maoist India,” *Economy and Society* 42 (2013): 480-506.

group's leadership and cadre were educated. Thousands of young men were mobilized from these madrassas to fight against the Soviets in the mujahedeen war in the 1980s. Mujahedeen fighting groups organized themselves into larger networks, called "fronts," or mahaz, each led by a great leader who was able to disburse military supplies from foreign donors across his front to field commanders.¹⁶ One of the major tasks that Hamid Karzai government did was to extend government control beyond Kabul by appointing the warlords as governors and district governors. But these group of power seekers exploited the local people and engaged into corrupt practices which alienated the common men from government which provided a fertile ground for the Taliban to unite the local people. Disenfranchised people and the downtrodden did not get any distributional benefits of the government programs which was one of the main reasons for which the Taliban gained societal acceptance. Though Taliban control could not do much public service, yet they were found to be prompt in delivering justice to common men (for land, trade and family matters) while government judicial system was found to be ineffective. As an illustration it can be mentioned that under British support, poppy crop was to be destroyed in Helmand province, while money was spent, pocketed by the corrupt officials, the common farmers did not get any benefit from the loss of their standing cash crops which was one of their major sources of cash income. Taliban took advantage of this popular disenchantment among the farmers and they provided them the social protection. Similarly, the ruling government failed to appreciate the different social dynamics prevailed in specific regions of the country. For example, the Alizai warlord was appointed as Helmand Governor and Alokozais warlord as head of secret police while during Taliban regime Isaqzais held number of key positions. The ethno dynamics of the rural society was wrongly positioned which again erred the local dominant social group and Taliban took advantage of such disenchantment within the society.

The Taliban benefited from extensive social resources in establishing the post-2002 insurgency. Shared education, ideology, and military experience - - all endowed a powerful horizontal network that helped the Taliban mobilize its fighting groups and maintain the coherence of a movement that contained many rival fronts and Shuras (Islamic decision making organized by the mosque). There were many other forms by which the Taliban exploited the perception and aspirations of the regional people in the absence of inappropriate and corrupt practices followed by the government appointed power brokers, and all these factors led to strengthening of the social resources in favor of Taliban within the rural society. Their support base had turned formidable in specific provinces and districts, while government machinery turned ineffective, corrupt and unable to provide services to the common men to gain

¹⁶ Johnson, *The Afghan Way of War*, 217-39.

confidence.

Military adaptation was another factor that the Taliban insurgents could execute in relation to centralized command of the official forces. Military adaptation at the battlefield take different forms like technological improvisation, organizational flexibility in execution of command, localized tactics etc which also helped the Taliban insurgents to develop resilience in the battle field. The Taliban forces appear formidable in specific provinces and districts principally because the local administration has failed to live up to their expectation in administration, putting in place a governance structure and enforcing them primarily because of excessive dependence on the warlords who had their personal benefits to gain instead of keeping larger interests of the country as one of the central objectives of civic governance.

The likelihood of a remission of the intensity of conflict does not appear bright, despite the fact that the civil war has probably prolonged far too long, affecting the overall psyche of the citizens, which breeds mistrust, disobedience and anarchy, all these factors undermine putting in place an effective governance system for enforcing civic rule.

If we now turn our attention to analyze how management of valuable natural resources of the country also trigger enhancement of conflict, not always related to internal factors, but also with the international actors that play their cards from across the border, then the scenario will further be comprehended adding into additional dimensions related to utilization of natural resources (economic factors) causing further conflict. A discussion in this regard has been presented in the following section with issues like economic development, multi ethnic demographic conflict, land dispute principally involving migrant Kuchi population with the Hazaras (the sedentary pastoralist), international dispute on river water sharing, mining as important natural resource management issues and peripherally drug trafficking, smuggling of timber resource etc.

Natural resources and social and economic conflict

The purpose of this section is to examine how far Paul Collier & Anke Hoffler (2008) observations on economic causes of civil war is applicable in the context of Afghanistan and what are the manifestations of such conflict especially from social and economic perspectives. In this regard, it may be kept in mind that there are numerous conflict areas in the country, but some of the major areas are purposively chosen to appreciate the complexity of the conflict. The issues that are discussed fall in the realm of low economic development, multi ethnic diversity, nomad- farmer strife, water sharing and water right conflict, and mining issue- - majority of them are in the areas of Natural Resource Management (NRM).

(a) Low economic attainment and poor income

According to UN Human Development Index, a measure of overall development indicator covering measures areas like health, education, and economic life of a nation, Afghanistan has been consistently ranked in the bottom 10 countries in the world. Implicit in this is also low per capita income, one of the lowest in the world. When economic attainment and incomes are low, civil war and internal conflicts tend to rise, as cost of raising war by the rebel is also low, and they can be sustained at lower opportunity costs. The Taliban resilience in civil war has been consistently high as they have aptly utilized the situation of poverty and impoverishment of the common people and lack of services from the government side which have compounded the problem, providing a fertile platform to mobilize their cadre at low costs. This has been probed empirically, and Afghan also fall under this stratum. Alongside lower income, it is also estimated that per capita US security and economic assistance to Afghanistan was also low- - \$ 52 per annum compared to \$ 1400 for Bosnia and \$ 800 in Kosovo during 2002 and 2004¹⁷. As major portion of these assistance is earmarked for security concern, economic assistance in real term is awfully low, as even a smaller economic assistance does not reach to the needy population because of pilferage and corruption and weak implementation.

(b) Multi ethnic demography and lack of social cohesion.

Afghanistan is a multi -ethnic Muslim state. The most dominant group is the Pashtuns, estimated at 40–42 percent of the population. There may be as many as 400 tribes and clans of Pashtuns, although the war, refugee life, and the Taliban have subverted the power of tribal and clan leaders. The Pashtuns tend to live in the eastern and southern parts of the country, but pockets of Pashtuns can be found in the north. While there are approximately 12 million Pashtuns in Afghanistan, there are twice as many in Pakistan, mainly in the eastern parts, in Khyber Pakhtunkhwa (the former Northwest Frontier Province), the Federally Administered Tribal Areas (FATA), Baluchistan, and around Karachi. The 2,400 km border between Pakistan and Afghanistan is often ignored by Pashtun tribes living near the border. The Pashtun tribes in the FATA of Pakistan and elsewhere have formed their own insurgent groups in recent years, the most notable of which is the Tehrik-e-Taliban Pakistan¹⁸.

The other major Afghan groups are the Tajiks at 27–30 percent, the Hazaras at 15 percent, and the Uzbeks and Turkmen at 9–10 percent of the total population. The remaining 13 percent or so come from

¹⁷ Joseph J Collin (2011), *Understanding war in Afghanistan*, pp-65, National Defense University Press, Wahington

¹⁸ For a standard source on modern-day Pashtun tribal issues, see Tom Johnson and M. Chris Mason, "No Sign until the Burst of Fire: Understanding the Pakistan-Afghanistan Frontier," *International Security* 32, no. 4 (Spring 2008), 41–77.

smaller minorities: Nuristani, Pashai, Aimaq, and others.

Languages are also mixed, with about half speak Dari (Afghan Persian, the lingua franca); 35 percent speak Pashto (or Pushtu, the language of the Pashtun); and 11 percent—mostly Uzbek and Turkmen—speak Turkic languages. There are 30 known minor languages also spoken in Afghanistan. Three groups dominate the non-Pashtun segment of Afghans. Together, they constitute a majority of the population. The Dari-speaking Tajiks are the second largest group. They are non-tribal and dominate the populations of Kabul, Mazar-i-Sharif, and Herat. Most non-urban Tajiks are spread across the north eastern part of the country including the famous Panjshir Valley. While most Tajiks are farmers, they have “historically been the bedrock of the merchant community, bureaucrats, and educated clergy” in Afghanistan.¹⁹

The Hazaras, the next largest group, live mainly in the central high plateau and in the north. Many of them have distinctive Mongo-like features. Because of their appearance and the fact that most Hazaras are Shia Muslims, they have often been treated badly by other Afghans, with the Taliban being the last to mistreat them. The Sunni-Shia schism has not been as divisive a factor in Afghanistan as it has been in Iraq in the modern era.

The Turkic-speaking Uzbeks and Turkmen constitute another 10 percent of the Afghan population. The Uzbeks are considered highly effective fighters on the ground or on horseback. Most Afghans are Sunni Muslims (80 percent), with the balance—mainly Hazaras—being Shia Muslims.

The literacy level is low, as is the income level and employment opportunity. There are cultural differences and religious issues and low literacy rate make racism a common phenomenon amongst people and it is very easy for anyone to provoke a war in Afghanistan. Civil strife among the ethnic groups is also aimed at gaining power in the society.

The multi-cultural diversity in the demographic structure is a potential strength in any society provided cultural issues are resolved following democratic or other process under the provision of national laws in the governance structure, which is however weak in Afghanistan. This breeds dissensions, alienation and internal strife and civil war which cannot be resolved unless the law enforcing institutions rise

¹⁹ Louis Dupree, *Afghanistan* (Princeton, NJ: Princeton University Press, 1980), 125–127.

above their clannish interests and act effectively as per national constitution.

(c) The nomad-farmer conflict

The nomad and semi-nomad populations are called Kuchi in Afghanistan. There are an estimated 2.4 million Kuchis, of which 60% of them are nomadic, maintaining large herds of sheep and goat. An estimated 100,000 Kuchis are displaced due to drought and natural calamities in the past few years. The Kuchis have been identified by the UN Assistance Mission as one of the largest vulnerable groups in the country. Due to migratory nature of the Kuchi population from mountainous region to valley or vice versa, they come into conflict with the sedentary farmers, known as Hazaras, and more often than not conflict turns violent. Conflict arises as the Kuchis take their large herds to pass through the crop lands and pasturelands owned by the Hazaras, and alleged to be damaging them. The passage of large herds of over 1000 animal per herd and on the fixed route, actually claim to be blocking the sedentary farmer's way to their village pasturelands at the frontage of their villages.

The problem lies in the ambiguity in the definition of property right and uses right of the pasturelands by the Afghan constitution, and whatever rules are existing they cannot be enforced for want of political pressure, power broker, warlords who wield considerable power in the locality. It is also to be acknowledged that pressure on pasturelands being heavy, as claimed by the farmers, the migratory animals of large number adds on to already depleted natural resources of Afghanistan which lead to intense conflict between these two sections of the rural population. The pressure on pasturelands is further exacerbated by the increased Kuchi population who have returned from Iran and Pakistan and settled in Afghanistan and also diversified from their traditional occupation of herdsmen to white color jobs via the educational attainment. They have settled down on the so called pasturelands and set up their homes and colonies, further reducing pasturelands and availability of greens for supporting animals. In fact, the expansion of many large and medium cities of Afghanistan are taking place due to forcible encroachments of pasturelands along the periphery of main cities, which has been found to be growing after the installation of national government. Many Kuchi population now occupy important government positions and enjoy considerable administrative and political power in the bureaucracy and national power center. The status of pasturelands and grazing lands have been poorly defined in Afghan law, and there has been a perennial debate as what constitute pastureland and who owns them (is it private or public ownership?).

A study conducted by Afghan Research & Evaluation Unit (AREU) in 2016 observed “undoubtedly, as long as the authorities rely on the 1971 law (pasture law), by blocking the access routes to the

pasturelands of central Afghanistan, the Hazara communities prevent the Kuchis from using most of the pastures”.

As far as I know, the Kuchis are not using the grasslands in the central provinces of Afghanistan because Hazara armed people blocked the entrance gates of central provinces like Bamyan, Daikundi and Ghor. The Hazara people all came together in Daymordad and Hesa Awal districts of Wardak province, which are the main gates for the Hazara provinces, and don't let the Kuchis move forward. That's the reason why every year the fighting is happening in Daymordad and Hesa Awal districts²⁰.

While many Kuchis deny causing damage to the crops and to the pastureland near the villages, some Kuchi elders implicitly acknowledge the problem when asking for state intervention to prevent abuses from both sides (Ibid pp-4).

The government must collect weapons from these commanders and Hazaras and also from us and tell them to leave Kuchis in the mountains and tell Kuchis also not to encroach on the crop fields of the Hazaras, but unfortunately the government and Hazaras do not want the problem to be solved²¹.

Conflict between nomads and farmers affects not only Hazara farming communities, but also Tajiks and Pashtuns. The physical expansion of pre-urban areas of the major cities have taken away significant portion of grazing lands where Kuchis used to bring their animals for survival, but these lands have become scarce impacting them adversely. Further, during the last 15 years, induced by demographic changes and income growth coupled with tensions in the availability of pasturelands, mechanized agriculture, increase in area under poppy cultivation as also contains conflict between these warring sections, some of the Kuchis are turning into sedatarisation as way of life. Kuchis are also learning new skills and exploring opportunities for alternate way of life. This has become a new source of conflict wherein many Kuchis grab rangelands along the village or other settlements area which are not liked by the traditional settlers. The conflict resolution efforts by the government do not turn into any fruitful outcome due to complex interest groups of various factors.

²⁰ Interview with staff member of Grassland Department of Agriculture Ministry (reproduced from AREU Report, PP-3)

²¹ Interview with Kuchi elder of Kharokhel Tribe in Midan Wardak Province, 22 November 2016 (reproduced from AREU Report, PP-4)

(d) Conflict with the neighbors on Water Sharing from Transboundary River

Afghan-Pakistan water conflict

Water sharing disputes across the bordering nations for a transboundary river is a common tension point between the riparian states of Afghanistan and Pakistan. Afghanistan has perennial dispute with Pakistan and Iran regarding sharing of water from four transboundary rivers. The water crisis in the South Asian region has become acute due to high growth of population, increased demand for agriculture and industrial purposes and persistent urban growth. The region has 21% of the world population but have access to only 8% of the water source, causing a mismatch between demand and supply. High population growth, urbanization and economic development necessitate increasing use of water that are not easy to manage.

Robert Kaplan (1994) has rightly warned about “The Coming Anarchy” in international politics that future wars will be fought over scarce resources, especially water²². Gunther Baechler, who led Environment and Conflict project (ENCOP) came up with his finding that violence can occur in the absence of regulatory mechanism and poor state performances²³. Michel Klair claims that modern warfare in 21st century will be the result of Resource War especially freshwater global distribution.²⁴ Currently, there are nine rivers shared by Afghanistan and Pakistan with an annual flow of 18.3 million acre feet (MAF), while river Kabul alone accounts for 16.5 MAF. The Chitral River, which originates from Pakistan and join Kabul River near Jalalabad and then re-enters Pakistan, contributes about 8.5 MAF. Therefore, both the countries are uniquely positioned as riparian countries in as much as Kabul River and Kunar River are concerned.

Afghanistan has so far not made any plan for efficient use of water. In order to harness the water of river Kabul for agricultural purpose, hydro power generation and for water availability to bring in overall stability in the national economy, the Government of Afghanistan has planned to build 12 dams. These dams once built, will serve mainly as a source of hydro power with a total potential of about 2400 megawatts there by reducing the gap between 670 megawatts produced and 3571 megawatts required for fast growing population of the country.

²² Robert Kaplan, “The Coming Anarchy”, The Atlantic , Feb 1, 1994

²³ Gunther Baechler, “Why International Transformation Causes Violence: A Synthesis”, Environmental Change Security Project Report, Issue 4, Spring 1998, 24-44

²⁴ Michael, T. Klair, “Resource Wars: The New Landscape of Global Conflict: (New York, Owl Books, 2001), 141

According to documents available with The News, the Government of Afghanistan is initiating multi-purpose water projects on the tributaries of the Kabul River with assistance from the international community. India plans to assist Afghanistan in this initiative, which could affect Pakistan. The documents also show that the World Bank will provide funding for the 12 dams that will cost \$7.079 billion. Meanwhile US authorities have also offered their services to facilitate a water treaty between Pakistan and Afghanistan to ward off a future water dispute between the two countries.²⁵ The pro-Pakistani apprehension is that the realization of such a plan would lead to reduced flow of water in Pakistan.

Afghanistan has the right to utilize water from the Kabul River as the total flow of Kabul River is 21,000 Million Cubic Meter. But the River Kunar, which contributes 15,000 Million Cubic Meter to the Kabul River, originates from Pakistan. In the absence of major dams in Pakistan, it is feared that Pakistan will have to buy electricity from Afghanistan, which is the underlying purpose of the above mentioned plan of the Afghanistan Government (ibid).

Afghan-Iran water conflict

Disagreements between Afghanistan and Iran over the sharing of the Helmand River have been brewing since the 19th century. The points of friction encompass the shared water resource and the Harirod-Murghab basin. At stake are the livelihoods of the inhabitants of both basins, the environmental integrity of the region, especially the volatile Sistan wetlands, and the development of hydro-electric power from these shared rivers.

Iran-Afghan parleys on water sharing treaty were resumed in June 1972 and culminated in the Helmand River Water Treaty of 13 March 1973. Iran's approach to this treaty was based on the idea that international relations are more important than the development of the region and therefore it evinced a spirit of accommodation and conciliation.²⁶

The treaty contained ten articles and restricted Iranian consumption from the Helmand River to 22 cubic

²⁵ The News, The June 26, 2018. Also available at <https://www.the-news.com.pk/archive/print/6137570-India-to-help-afghanistan-build-12-dams-on-Kabul-river>

²⁶ Abidi, A.H.H. 1977. 'Iran-Afghan Dispute over the Helmand Waters', *International Studies*, Vol. 16, No. 3, pp. 357, 369-370; Suzuki, Hitoshi. 2006. "The Nature of the State in Afghanistan and Its Relations with Neighbouring Countries" Institute of Developing Economies. Discussion Paper No. 72, p. 9)

meters per second in a normal year. Other clauses stipulated a variation on this for dry periods and wet periods. Afghanistan was obliged to avoid polluting the water to such an extent as to make it unsuitable for agriculture. In the event of differences in the interpretation of application of the provisions of this treaty, the parties were first to endeavor to obtain a solution through diplomatic negotiations or mediation by a neutral third party. If neither course produced a solution, the differences were to be submitted for arbitration. The treaty presented a bilateral and balanced approach to the problem of sharing water and what in the past was regulated only by the uncertain yardstick of tradition and local usage was now given a firm foundation in a formal understanding²⁷.

Despite the generous provisions of the treaty and the spirit of cooperation in which it was created, there was much opposition to this treaty on the Afghan side based mostly on suspicions of Iranian motives. Consequently, the treaty was not ratified until 1977^{xi}. Since then, for reasons of increasing political and social instability in Afghanistan the treaty has largely become dormant. Iran has never duly compensated Afghanistan in accordance with this treaty yet, has been known to take actions that have adversely affected water supply within Afghanistan to the Sistan Wetlands in the border region²⁸.

The Sistan wetlands are a 2,000 square km oasis in the middle of hundreds of kilometers of arid plains located on the border of Afghanistan and Iran and are fed by the Helmand River. The wetlands' location, far from any other substantial body of fresh water, has made them an ideal stop for around 150 species of migrating birds, such as flamingos, ducks and pelicans, travelling from Russia south to the Indian Ocean. The wetlands' isolation and conflicts in surrounding areas has also lead to a dearth of scientific information and monitoring of the wetlands.

Another factor in the increasing vulnerability of the Sistan wetlands is changing patterns of human habitation in the region. Many people had lived around the wetlands for generations either moved away or lost livelihoods while at the same time around 320,000 Afghan refugees moved in. Acute water shortages gave rise to an increase in diarrheal and communicable diseases. The Sistan wetlands faced many challenges, and these affected not just Iran but Afghanistan also, thereby requiring a bilateral solution.

²⁷ Abidi, A.H.H. 1977. 'Irano-Afghan Dispute over the Helmand Waters', *International Studies*, Vol. 16, No 3, p- 371

²⁸ Government of the Islamic Republic of Afghanistan (GIROA). 2007b. "Appendix to the Transboundary Water Policy of Afghanistan: Transboundary water issues", pp. 4-5)

The Harirod-Murghab River Basin

The Harirod-Murghab Basin is fed by the Harirod and the Murghab rivers. The Murghab River flows from Afghanistan directly to the Karakum desert of Turkmenistan. Due to topographical conditions, Afghanistan's use of Murghab flow is very limited and provides little scope for transboundary dispute²⁹. The Harirod originates in the western slopes of the Koh-e Baba mountains of Afghanistan and flows to Iran and then onto Turkmenistan. Sustainable flow and future demand on the Harirod have not been determined but water demand in Herat province and on the Iranian side of the border is expected to increase. Needless to say this will put further tension on already somewhat strained water-relations between Iran and Afghanistan.

Further foreseeable strains on this relationship involved the construction of a controversial Salma dam in 2016 on the Harirod, a major river, flowing from Herat province through Iran. This dam has heightened tensions between the two countries and is likely to create a similar situation to the Helmand River dispute because it will likely affect the amount of water available to Iran as well as decrease Herat's dependence on Iranian power.

The mounting tensions between Afghanistan and Iran over the management of shared water resources arise out of several issues. The treaty provisions regulating the uses of the Helmand River are inadequate and inconsistently enforced. The increased social and environmental pressures on the Sistan wetland threaten this already precarious ecosystem and create the potential for a man-made ecological disaster. As Afghanistan develops and its energy consumption demand increases, the construction of hydro-electric dams continues to aggravate downstream Iran. It is unlikely these points of friction will be resolved without concerted and proactive collaboration between the two countries.³⁰

Ensuring regional peace and cooperation

If we are to summarize the point of conflict on water as important component of natural resource, it is found that both Pakistan and Iran are dependent on water flowing out of Afghanistan to irrigate their farmlands and make potable water available to their citizens. It is feared that an increase in the potential capacity of hydro -electric power and irrigation water following increase in water storing capacities in

²⁹ Government of the Islamic Republic of Afghanistan (GIROA). 2007b. "Appendix to the Transboundary Water Policy of Afghanistan: Transboundary water issues", p. 8

³⁰ Paula Hanasz, "The Politics of Water Security between Afghanistan and Iran.", FDI Associate, Global Food & water Crisis Research Program

Afghanistan could effect a decrease in water availability in Pakistan and Iran. However, Kabul needs to assure the neighbors that the enhanced capacities are the legitimate need of Afghanistan, suffering from perpetual energy crisis and food shortage along with infrastructural deficiencies and Afghanistan has to reassure to the neighbors that the above investments are not intended to harm their interests. This could be possible if complete hydrological data in the form of rainfall on the catchment area, water availability on the reservoir, water use, water discharge and related information could be shared with the neighboring countries to allay their apprehensions, thereby bringing them on board on this vexed issue. However, for this to happen all regional actors would have to commit themselves to ensure regional cooperation and collective action, taking clues from how many other international river water disputes are resolved with the active involvement of international bodies to in the mediation process. This is absolutely critical if this vexed issue has to subside benefitting all the national and international stakeholders.

(e) Natural Resource Management in Mining: some reflections on the conflict

Afghanistan's mining endowments are precious by their diversity and economic value. The precious and semi-precious gemstones are emeralds, rubies, sapphires and lapis lazuli. Besides, it has uranium and common metals (copper, lead, chromite and iron), rare-earth metals (such as lithium and niobium) and precious metals such as gold and silver. There are potentially valuable reserves of fossil fuels in the form of gas, oil, and coal. Afghanistan's location also makes it a strategic transit route for natural gas from Turkmenistan to Afghanistan to Pakistan and India (TAPI) pipeline to export gas from Central Asia to South Asia.

Although mining has been taking place in Afghanistan for centuries, it is reported that only ten per cent of the country has been assessed by detailed geological surveys and much of its potential remains unexplored. Nevertheless, a June 2010 survey by the US estimated the value of the country's geological resources at one trillion dollars. Other estimates have reached the staggeringly high figure of three trillion dollars.³¹ The development of mining industry holds great promise for the country and according to some estimate it has the potential to contribute about 45% of the national GDP and create employment opportunities enormously provided the sector is developed in a responsible and transparent manner and becomes inclusive to benefit all stakeholders. Additionally, some international experts have observed that the growth of this sector alone could take care of the financial insecurity of the national government

³¹ Afghanistan Research and Evaluation Unit (AREU), 2012

from the potential revenue earning as also through multiplier effect of employment generation and capital investments.

Developing the country's mineral resources is a strategic priority for the Government of Afghanistan and the international community, who see the sector as an engine for growth and the best hope for Afghanistan becoming fiscally self-sufficient in the medium term³². While the hopes are high, the sector is beset with numerous issues: local conflicts among the stakeholders, corruption, inadequate linkage with international market being a landlocked country, indifferent neighbors, extortion and local warlords pressure, lack of institutional set up and coordination gap between national and provincial governments, weak governance etc. The mining activity is highly maneuvered and controlled by a segment called mining mafias which are basically a combination of warlord or extremist group that receive financial support from the present actors.

The United Nations Country Team (2013) found that developing Afghan mining sector in itself has a few challenges which are intrinsic to the country's current state of affairs. They can be reproduced to get a perspective of the sector.

Scare Livelihood Resource: Vital livelihood resources such as land, irrigation water is source of competition. Given the traditional systems of dispute resolution is weak and government's ability to intercede is limited, these disputes can turn violent.

Instruments of coercion and influence: The stakeholders with absolute power like warlords, commanders, wealthy elites prevail over others in the mining activities and also go in for "elite capture" reducing law enforcement by the government.

A source of illicit revenue: The illicit trade in timber, drugs, gemstone has built a powerful shadow economy that contributes to the criminalization of the economy and sustain serious corruption.

Incentive for peace spoilers: The profits from gems, drug and timber create groups that have a vested interest in continued insecurity in Afghanistan. At the regional level vested groups across the border would have interests in these vested groups to ensure that national development like erection of dams, hydroelectric power generation, infrastructure development that could harm their interests would need to be disturbed through terror funding across the border. This seriously undermines collective actions at all levels disturbing peacebuilding efforts.

³² UN Country Team in Afghanistan, "Natural Resource Management and Peace building in Afghanistan", 2013

A source of grievance: In Natural Resource Management, while the influential elites and other power brokers take away the lion's share or usurp major portion, some communities with relatively weak bargaining power get marginalized and feel left out. Their access to natural resources are denied in the absence of clear cut mechanism to enforce user rights of natural resources, brewing discontent and strife in the society (ibid).

On the basis of empirical observation of Paul Collier et al, we have so far examined how specific component of natural resources like land dispute, water use conflict and mining resources are falling in the hands of selected few who enjoy considerable clout in the rural society and also how national interests are subverted alongside neighboring countries' manipulation in the affairs of host country. Additionally, forestry resource and timber trade, poppy cultivation, narcotics trade and drug trafficking also fall under the ambit of Natural Resource Management. Unfortunately, shadow economy is equally pervasive in these sectors fueling terrorism and sustaining their survival through international network jeopardizing national efforts to put in place a system of discipline and institutional governance. Therefore, all segments of the natural resources management in Afghanistan exhibit some commonalities that are plagued by institutional vacuum, weak governance breeding disenchantment among the marginal people while the national and international interest groups exacerbate the above process.

Missing Institutions and national governance in the context of civil war affecting cooperative governance: a linking phenomenon

The civil administration responsible for implementing government policy and programs requires hierarchy of institution at all levels of administration and their effective monitoring and control so that the targeted population designated for a particular program are benefitted. As we have seen, civil governance in Afghanistan is virtually weak with no effective coordination between national, provincial and district institutions. The local mafias and warlords and other interest groups enjoy overpowering authority derailing most of the programs of the national government. The powerbrokers, tribal leaders, warlords, including officials look upon governmental activities for their pecuniary benefits rendering institutional governance ineffective. While they rule the roost, judicial system cannot deliver justice to the common men, leading to public grievance. Needless to mention, the judiciary in Afghanistan is also weak. The radical groups, extremist outfits including the Taliban, in some specific regions, control

the administration including resolving local disputes. They also run parallel powerful economy networked strongly among their sympathizers. While the macro perspective of governance in civil administration is weak, collective actions to resolve transboundary disputes relating to sharing of river water, controlling illegal drug trade, transboundary drug smuggling, timber trade, minerals and extractive materials present no better perspective among the distrustful neighbors. However, international efforts are underway to work out mediation process through diplomatic channels, which would have to go through lengthy procedures and compliances.

It is probably premature to expect that international governance within the in- country institutions would show any better cohesion in relative term when the macro perspective is severely dented on account of persistent civil war and internal strife that do not show any sign of abatement. Moreover, class struggle within the multi- ethnic social groups, each supported by their mentors/promoters, not necessarily residing within the country, make the situation far more complex, which is aided by porous international borders. Under this background, ensuring effective governance within the localized framework of agricultural cooperative, as an institution for stimulating agricultural growth, should not be viewed in isolation. Likewise, the collective action for common cause including the agriculture cooperatives should also take these macro perspectives into account for social mobilization in Afghanistan, a complex task to achieve.

Notwithstanding the rich natural resources endowment of Afghanistan, its management has become thorny. They do not contribute adequately to the cause of the national economy, principally because of pilferage in the governance system aided by interplay of powerful international actors who would probably use this opportunity to further their vested interests. Under this phase perpetual anarchy and absence of government institutions and their weak governance, farmers as a community also develop mistrust among themselves, and also their trust and confidence with whatever government institutions are present, are undermined. It is natural that the collection action among the potential stakeholder that are the backbone of any cooperative institution is also impeded. It could probably be the reason that could explain that despite having more than 3000 primary agricultural cooperatives at some point of time (to be discussed in Chapter 4), cooperative as a movement has failed to take off to make any visible impact on Afghan agricultural landscape.

It needs to be emphasized that collective actions among the neighboring countries for resolving water sharing disputes was found to be lacking due to mistrust and apprehension. It is possible that neighboring countries want these disputes to be lingered for their benefits as the opportunity costs of

water in their countries become high. So, the “free- lunch” that they implicitly enjoy now due to uninterrupted availability of flow water through the rivers of Afghanistan into their countries would disappear. Essentially, the syndrome can be summed by the “vicious cycle of transboundary conflict” that benefit the recipient countries (say, Pakistan, Iran) while the host country (i.e Afghanistan) tends to lose perpetually from the legitimate benefits of the natural resources. These situations are designed to be perpetuated, following terror funding thereby creating instability, for their selfish interests affecting national interests of Afghanistan. As the national governance is weak, problems compound, without heading towards conflict resolution and peacebuilding.

It is a fact that effective institutional development that delivers goods and services to the fellow citizens following laid out policies and programs (i.e, enforcing governance) is found to be lacking because of many peripheral circumstances discussed above. In agricultural cooperative, the farmers are the principal stakeholders, but situation in Afghanistan has been vitiated considerably, undermining trust and belief not only among themselves but also with the government institutions. Naturally, when trust is lost, organizing them into collection action framework for mutual and cooperative institutions is far more challenging. This is because the farmers are also part of a social entity that itself is not free from the disturbed ecosystem of Afghanistan caused by persistent civil war and severe conflict in natural resource management exacerbating further conflict. There is again a “vicious cycle” of persistent civil war, institutional vacuum, anarchy in administration, mistrust among fellow citizens including the farmers and lack of capacity of the farmers to come under collective action to form agricultural cooperatives.

While maximization of collective benefit of the farmer members under any agricultural set up is the prime motive of the agricultural cooperatives, this cannot happen unless social mobilization is ensured either voluntarily or through concerted efforts by the civil society including the government. Given the present environment of unpredictable civil war and strife with no horizon of settlement, it is unlikely that the agricultural cooperatives as an institution would be able to show results that will be contrary to overall perspective of the national chaos and instability. It is also likely that the foreign aid disbursing and project implementing agencies of Afghanistan would be swayed by the state of affairs prevailing in the country affecting quality of project implementation due to inadequate institutional capacities and uncertainty prevailing in the economy, discussed in the following section.

Section 2.8: Role of foreign aid

There is an immense body of literature available on foreign aid. Post World War II, when US released billions of money for reconstruction of Europe, it was argued that foreign aid would help promote economic development in the recipient country. Most donor rhetoric perpetuates this association. However, in any debate on this issue, there are always two contrasting views - one concluding that foreign aid promotes development, while the critique comes out with a set of empirical observations that aid bears no correlations with growth.

Generally speaking, economists and researchers who contribute to the anti-aid literature espouse that aid has no effect on growth and that it may in fact undermine growth. Economists like Friedman (1958) and Bauer (1972) called for an end in aid, arguing that it was not a necessary requirement for economic growth of a country. They assert that foreign assistance to governments is dangerous because it increases the power of the elite in recipient countries, leading to corruption and hindering growth.

Although Bauer has been a leading critic of foreign aid, his ideas are grounded on very little empirical research and this is the main critique against his published writings. However, the lack of empirical evidence in Bauer was made up by other economists in the 1970s. Giffin and Enos (1970) were among the first to publish empirical research questioning aid effectiveness. They found through simple correlation that there is a negative correlation between aid and growth in 27 countries.

Foreign Aid and Agricultural Growth

As discussed earlier, there is no consensus among scholars as to the actual effects of foreign aid on economic growth. The statement may have validity when growth is perceived through macroeconomic indicators, but in the context of analyzing sector specific growth like the one in agriculture, the macro aggregated generalized growth theory may have to be revalidated. This means that foreign aid, if supervised effectively, and properly implemented under good governance and favorable fiscal measures and also targeted properly, the effect of foreign aid could be better realized. Here lies the favorable impact of foreign aid in stimulating production and productivity.

The characteristics of aid need to be analyzed from the point of view purposes i.e sector specific (agriculture, social sector, gender empowerment, administrative reforms, resolving balance of payment issue, macroeconomic reforms, micro finance, governance etc). Similarly, aid giving agencies, bilateral or multilateral or philanthropic or non- government agencies etc have differentiations in their goals and purposes. Therefore, without making an aggregative standpoint, aid need to be viewed specific to sector as well as specific activities/purposes within the sector.

As a measure of augmenting food production and ensuring agricultural growth, in many underdeveloped and developing countries, foreign aid has played a critical role, provided foreign aid is effectively managed. On the contrary, aid becomes less effective if not backed up by good governance, transparency, and monitoring and feedback system. So, the role of the institutions manning the aid assumes significance. In a monumental study in the Sub Saharan Africa (SSA), covering 47 countries of the region spanning 2002-2010, Alabi (2014) has shown that average aid allocation into the agricultural sector was about 7%, absolute aid grew from USD 18 million in 2002 to USD 47 million in 2012, and agricultural aid positively contributed to agricultural growth and productivity. The study also observes that agricultural aid responds positively to disaster, conflict, governance and transparency. While making a distinction between bilateral and multilateral aid, the study proves that bilateral aid influences agricultural productivity more than multilateral aid. Another interesting finding is that multilateral aid has much stronger impact in influencing agricultural GDP compared to bilateral aid.

According to the compilation of Alabi (2014), about 20-24% of total agricultural sector aid is made up of agricultural development program, while irrigation and water resource development take away another 8-29% of total agricultural aid. The agricultural cooperative sector contributes about 1 to 1.5% of total agricultural aid.

When there are pointers raised on large external assistance received by Government of Islamic Republic of Afghanistan there are instances to connect this phenomenon with SSA countries. It is found that land locked countries within SSA have received significantly higher aid than the average of SSA as a whole. A report by the United Nation Economic and Social Commission for Asia and the Pacific (1999) indicated that due to their geographic positions, landlocked countries could benefit from foreign assistance, as it would need to fill the gap in foreign trade that they experience compared to the countries. This implies that a landlocked country like Afghanistan, trade barrier is a great bottleneck towards growth and therefore foreign assistance could partially mitigate the problem of international trade deficit. (*Source:* www.agrodeep.org/sites/default/files/agrodepworkingpaper0006.pdf)

Global evidence on agricultural aid

According to findings of IPFRI study, 'Foreign Aid to Agricultural: Review of Facts and Analysis (2011)', agricultural aid in real term started declining since 1980s, which was consistent with declining share in agricultural GDP to total GDP. The total aid, though increased from 1973-75 to the end of 1980s, declined early 2000s, but again started to increase since 2007. The food crises emerged in many countries. The IPFRI study designate 1990s as 'lost case' of the development aid, when the developing countries were undertaking major structural reforms and enhancing capacities to allocate and use aid resources more efficiently.

Agricultural aid, in any country, will be dependent on local priorities of the national government and the process of interactions between the donor and recipient countries. It is frequently argued that decline in agricultural aid is a reflection of lower priority to agricultural sector by the recipient countries to which the donor merely respond to. As in the case of total aid which are dependent on many considerations which arise from both donors' as well as recipient countries contexts, perspectives and technical and institutional capacities, the quantum of agricultural aid and the purposes for which agricultural aid is designed. In the agricultural sector, agricultural aid for purposes like research, extension, training and extension is not so easy to use effectively unless a good institutional arrangement and human capital is in place in the recipient countries. Because, it is difficult to scale up utilization of agricultural aid earmarked for these activities due to fact that they require significant contribution from human resources of the recipient countries, which cannot be strengthened in the short run.

Table 2. 8: Composition of aid to agriculture (2000–2003 and 2005–2008)

Total Bilateral/ Multilateral	Total Bilateral		Total Multilateral	
	2000–2003	2005–2008	2000–2003	2005–2008
Years				
Agricultural policy and administrative management	26.3%	17.7%	29.3%	28.8%
Agricultural development	15.6%	16.1%	13.5%	6.9%
Agricultural land resources	8.7%	2.8%	2.0%	1.6%
Agricultural water resources	14.5%	17.4%	21.3%	18.0%
Agricultural inputs	6.2%	2.3%	0.2%	0.7%
Food crop production	3.9%	4.8%	9.8%	10.1%
Industrial crops/export crops	1.8%	1.2%	1.0%	6.3%
Livestock	1.8%	1.1%	4.0%	4.2%
Agrarian reform	1.0%	1.5%	0.0%	0.6%
Agricultural alternative development	1.7%	9.6%	0.0%	0.3%
Agricultural extension	1.4%	2.4%	5.5%	11.1%
Agricultural education/training	2.6%	2.8%	0.1%	0.1%
Agricultural research	7.6%	14.7%	3.0%	1.8%

Agricultural services	1.3%	2.0%	4.5%	5.6%
Plant/post-harvest protection and pest control	0.8%	0.6%	1.2%	0.2%
Agricultural financial services	2.8%	1.0%	3.1%	1.7%
Agricultural cooperatives	1.2%	1.1%	0.6%	0.6%
Livestock/veterinary services	0.7%	0.9%	0.9%	1.4%
<i>Source:</i> Reproduced Islam (2011), p.30				

Even when human resources are trained and capacities are enhanced specific to requirements of aid management and utilization in the recipient countries, they face transfers to other departments, affecting the effectiveness of aid utilization. Because these training and capacity building efforts are purposive, technical and specific, and sadly, the recipient countries government do not differentiate between a trained personnel with a person who might not possess necessary skill and competency. End result is that; aid effectiveness is compromised.

Empirical analysis, drawn from across the globe, for the period 2000-08 suggest that within the agricultural sector, agricultural policy and administrative management make up for 17-29% of total agricultural aid, both bilateral and multilateral aid, while agricultural water resources (irrigation) share the next important allocation (14-21%) within the agricultural aid component. Allocation of aid towards development of agricultural cooperatives account for less than 1 to 2 of total agricultural aid (Table 2.7). This suggests that agricultural policy reform and management as also irrigation and agricultural water resources are the most important purposes for which agricultural aid is used.

Foreign Aid in Afghanistan Economy

A discussion on the economy of Afghanistan, starting with the present century, cannot be narrated without a thorough discussion on the magnitude and significance of foreign aid. In a sense, it is one of the most dissimilar economy, probably in the World, where foreign aid has made a deep impact on the national finances for national security, development and institutional foundation including administrative hierarchy. This phenomenon is caused due to sustained war, sectorial conflict and complete collapse of national governance during war-torn periods.

In a way, probably the National Transition Government, when assumed power in 2002, found it near impossible to rebuild a system of governance and establish rule of the land, and take control of national

finance. There was nothing worth the name existed during the annexation of power by the Transition Government, and therefore for any contextual case analysis of Afghanistan, regardless of the sector, the understanding cannot be complete without a complete reference of foreign aid. Such is the economic and social relevance of foreign aid in the country.

Aid for Security & Internal Stability

The 'National Cooperation Document, Ministry of Finance, 2012' mentions, 'aid has reached its highest level in Afghanistan'. As of July 2012, the international community pledged USD 119 billion for security and development, disbursed USD 70 billion for projects and programs.

In 2011 alone, the international community committed USD 16 billion to development and security activities of which USD 13 billion was reportedly disbursed. A large portion of aid disbursed during 2011, continued to remain off-budget. Of this amount, only USD 2.3 billion was channeled through the government budget, while the rest was spent directly by the development partners leaving the government in a position to only be able to account for the portion of aid that utilized the government systems.

In terms of sectoral allocation, security expenditure continues to dominate investment of expenditure in Afghanistan. During 2011, an estimated 68% of aid (USD 8.8 billion) was disbursed to finance security related expenditure. The development sectors, in contrast, received USD 4.1 billion of which a sizeable portion (9%) were 'unclassified', and development sector such as governance (28%), infrastructure (18%), agriculture & rural development (17%), education, private sector development, social protection fund (16%) and health (12%) were the largest recipients of development aid. In absolute amount, about 0.69 billion USD has been received for agriculture and rural development activities. According to the classification external assistance by Afghanistan National Development Strategy (ANDS) sector, agriculture and rural development activities received support for 18 donor funded projects. For these projects Rs 491 million was committed, while Rs 688 million was disbursed.

During 2014, ODA amounted to 19% of GDP, down from 24% and 21% in 2013 and 2012, respectively, indicating a declining still significant level of aid dependence. It is projected that ODA to GDP ratio to fall to 16% by 2016. However, the macro estimate in the Ministry of Finance indicates that to maintain the present level of discretionary spending, direct aid support should not fall below 18% of GDP in the medium term. It is realized that without higher level of support from the donor agencies, the Afghan government will be forced to make critical cut in spending which may be counterproductive for the growth and development including the reform agenda and economic self- sufficiency.

Kabul Conference (2010) and Aid Effectiveness

At the Kabul Conference (2010), the international community and the Afghan government reached a consensus that aid delivered through the national budget is among the most effective means of reducing dependence, delivering the shared governance, development and security outcomes that Afghans desire, and increasing the coherence of aid and Afghan Government capacity. An important milestone for the international community, as it relates to aid effectiveness, was to deliver on their Kabul Conference commitments of channeling at least 50% of external aid through the budget and aligning 80% of their assistance with the national priorities within two years from July 20, 2010. At a subsequent international conference on Afghanistan in Bonn in December 2011, the international community affirmed the special status of Afghanistan to receive donor assistance from Transition through a Transformation Decade in greater measures than similarly situated nations.

According to Afghanistan Development Cooperation Report (2014), between 2012 and 2014, 47% of Overseas Development Assistance (ODA) was channeled through on-budget Government system. This is just under the 50% on-budget target established at the Kabul, Bonn & Tokyo Conferences. The share of on-budget ODA has increased gradually from 46% in 2012 to 47% in 2013 to 48% in 2014. However, the total volume of ODA declined by 17% in 2014 compared to 2013, which contributed towards improving the benchmark parameters that were set out in Kabul conference. Since the donor agencies reduced aggregate aid on the one hand, and were asked to channelize aid through on-budget, the ratio improved, at the cost of total volume of aid.

Sector and Program based approaches

The ADC report (2012-14), indicates that sector-wise and program based approaches (SWAPs and PBs) have shown good results, in supporting recipients country's effort to coordinate support for a single comprehensive program and to harmonize planning, disbursement and reporting and audit procedures. Three sectors namely health, education and agriculture were identified for implementation sector-wide or program based approaches.

In these sectors, the government is the main service providers, after security. These sectors are the largest recipients of government recurrent budget, managed by a single ministry and most significantly, there is sufficient strategy and policy formulation in these Ministries.

Foreign aid, institutional capacity and sustainability

Foreign aid to be effective for national development and to ensure sustainability of the development process, there are needs for adequate preparedness, improvement in aid governance, strengthening of

institutional capacities, structural reforms and fiscal and monetary measures. Foreign aid as stimulus to growth cannot produce sustainable result in affecting macro-economic changes without a commensurate improvement in the attitude and desire to improvise the socio political situations.

Afghanistan, as is well known, has so far been a country which has habitually been dependent on foreign aid since the beginning of its journey towards development, beginning 2001. More than 15 years have passed, however, mammoth dose of foreign assistance has not been able to generate adequate vibrancy towards self-reliance. Among the intelligentsia a question is now being raised as to the effectiveness for bringing about sustainable development for the greater good of the economy. It is therefore necessary that Afghanistan development strategy is analyzed over different time points that are distinctly characterized across national events i.e, democracy, political will and institutional strength.

It is true and justified that the initial 2-3 years following Transition Government assuming power from a war ravaged condition, national priorities were focused towards ensuring safety and security to the citizens and building up confidence among the population. During 2004-09 when the national democratic government was formed, the priorities were the same as in the initial 2-3 year, which did not set out a clear cut policy to achieve development goals from foreign aided projects. The sovereign government, during these 8 years, could not respond towards improving the governance and institutional framework and accountability towards putting in place a mechanism to direct foreign aid for sustainable development.

During 2009-14 there was not any perceptible change in the approaches of the national democratic government to strengthen institutional set up in the government machinery to use foreign aid, and situation continued under 'weak policy' and 'less responsive bureaucracy and electoral accountability. While, first 8 years could be construed as stage of national preparedness for putting a policy framework in place on the foreign aid, sadly, there was inadequate policy preparedness on the part of the government to capitalize foreign aid policy for sustainable development of Afghanistan. Institutional capacity development, an important organizational requirement in public policy, could not be come up to the extent required for ensuring aid effectiveness. There have however been significant resolutions (mentioned earlier) in Kabul/Bonn/Tokyo conferences to channelize foreign aid through national budget and directing aid towards fulling national priority projects. They are admittedly a positive policy measure, which has affected structural use of aid in Afghanistan, but it was not adequate to change mindset of the national bureaucracy and political power to adopt a pro -active policy towards increasing aid effectiveness and impacting national development on sustainable basis.

PART 2:

STRIKING FEATURS OF AFGHAN AGRICULTURE, COOP HISTORY AND EMERGENCE OF COOP LEGAL FRAMEWORK

This part of the thesis contains 3 inter related chapters dealing with agricultural characteristics and prospect for growth, historical events of the agricultural cooperative efforts and movements and analysis on the efforts made by the national government to overlay a legal platform for organization and control of cooperatives. Through these constructs, an objective assessment of scope for organizing agricultural cooperatives from the view point of typology of agricultural production, scale, nature of production conditions and potential for creating organizational structure are made, which are then examined with the present efforts made by the Government for agriculture cooperatives to address various requirements of the user members. The legal environment or the lacuna in the legal mechanism are highlighted in the light of International guidelines so as to make the legal system an enabling institutional support for cooperative progress. The thesis underscores the importance that unless a favorable ecosystem is created through various legal provisions, fiscal and other support services that are admissible for the nascent industry, agriculture cooperatives would continue to struggle to make any viable impact in the rural milieu of Afghanistan.



CHAPTER 3

Striking Features of Afghanistan and its Agriculture



Striking Features of Afghanistan and its Agriculture

Section 3.1: Introduction

The purpose of this chapter is to bring out the salient features of the Afghan economy, in general, and its predominant sector, agriculture, in particular, in terms of location, topography, land use, demography, rainfall, temperature, irrigation, landholding and land tenure, cropping pattern, production and productivity, importance of horticulture and livestock, indebtedness, poverty and vulnerability, and agricultural infrastructure including roads, communication, educational, credit and marketing networks - features, which seem to perpetuate widespread market failure problem for a severely war-ravaged economy. It aims at highlighting why building up grass root cooperatives becomes the mainstay of the Afghan economic development in the eyes of the national government as well as its international supporters.

This chapter is organized as follows. To set the stage of this dissertation, the next section briefly covers the landmark developments in the Afghan history of war and conflict during the past decades, which left the country as totally devastated. Section 3 describes the country's location, topography, land use and people in terms of their demographic and other prominent features. Section 4 summarizes the country's temperature, rainfall, irrigation and landholding features. The country's cropping pattern, production and productivity are captured in section 5, while the next two sections highlight the importance and basic features of two allied agricultural sectors – namely, horticulture and livestock. Section 8 brings out indebtedness, poverty and vulnerability features of the Afghan people, while the next section provides a brief but updated account of the country's infrastructure network. Given the various imperfections of the Afghan economy as described in the preceding sections, which preclude smooth functioning of a perfect market system in the near future, the final section attempts to rationalize the future development strategies as adopted by the post-war national government, thus setting the stage for highlighting in the chapter which follows the role of cooperative form of business, especially at the rural grass root level.

Section 3.2: A Brief Recent History of the War-ravaged Economy

Historical accounts have classified the nearly three decade-long Afghan history of war and conflicts into four broad phases: phase of Communist Rule and Soviet Occupation (1979-1992), phase of Civil War (1992-1996), phase of Taliban Rule (1996-2001) and phase of establishment of Transitional and

National Government (after 2001) ³³. The country experienced decades of relative stability prior to overthrowing of Daoud Khan in 1978 and the subsequent invasion by Soviet forces in 1979. After Soviet occupation, mujahedeen resistance groups cropped up to wage guerrilla warfare and draw Soviet forces further into conflict, and in the process both the sides inflicted monumental abuse on the civilians. After Soviet withdrawal in 1989, the government became increasingly dependent on militias to maintain law and order, but as mujahedeen factions started fighting bloody wars against each other, civilians became subjected to “arbitrary, retaliatory and often random violence including robbery, torture, imprisonment and rape” (ibid, p.3). When Taliban assumed power out of the civil war around 1996, they continued their repressive policies, resulting in increased poverty and widespread human rights violation, ethnic prosecution, displacement of civilians and destruction of infrastructure and forests. Even after the fall of the Taliban in late 2001 and establishment of a Transitional Government, peace and order continued to elude the country for a long time. It is only in 2005, a national government came to power following development of a new constitution and conducting of democratic elections, though “still nearly half of the population lives below the poverty line, more than a quarter of a million individuals remain displaced inside the country due to the conflict and nearly three million remain in Pakistan and Iran” (ibid, p.3). In the process the social fabric of the country got ruptured and all state institutions became either missing or weak and fragile. In the words of a citizen, the experience of conflict is captured in the following language:

“Three decades of war created a lot of problems for us. We migrated to Pakistan, our houses were destroyed, our land and property were grabbed by warlords, the economy was badly affected, our sons and daughters were deprived of education, our women were insulted... schools, hospitals, roads and factories were destroyed and fear of war has caused many mental problems” (quoted from ibid, p.3).

Oxfam (2009) has captured the impact and scale of the violence inflicted on Afghan population over the nearly three decades of war and conflict through the results of a survey on 700 Afghans, as summarized below:

- *“Approximately two in five (43%) individuals reported having property destroyed, a quarter (25%) land destroyed and one in three (34%) were robbed during the conflict.*
- *Three in four people (76%) reported being forced to leave their homes at some point during the conflict.*
- *More than one in ten (13%) individuals reported being imprisoned. Detention was most often*

³³ See, for example, Oxfam (2009)

described as arbitrary and linked with harassment, extortion and threats from parties to the conflict or local power holders, and many survivors describe family members paying bribes or elders negotiating for their safe release.

- *One in five (21%) of individuals reported being tortured.*
- *Just 1% of individuals reported receiving any compensation or apology for the harm done to them. None of the reported instances of compensation or apology were provided by those perceived to be directly responsible for causing harm..." (ibid, p.4).*

Nevertheless, as the above-stated study reveals, the Afghans overwhelmingly want peace – peace to educate their children and have a good life. It is against this background, the present dissertations attempts to describe below the imperfections of the Afghan economy and its agriculture to chalk out a future strategy of development.

Section 3.3: The Country – Its Land and the People

Afghanistan is a land-locked country surrounded by erstwhile Soviet bloc countries of Turkmenistan, Uzbekistan and Tajikistan on the north, by Pakistan on both east and south, and by Iran on the west (see, Figure 3.1). Naturally, the country has no port of its own to facilitate trade and business – the nearest ones being located in either Pakistan or Iran. Moreover, as land use data in Table 2.1 reveals, the country has large tracts of pasture land (46%) and other land (mostly mountainous, barren & desert land) (39.27%), thus leaving only 14.73% of total land area which can at best put to agriculture. In fact, the extent of land area actually put to cultivation is only 3.77% (irrigated) and 1.75% (rain-fed) of total geographic area, while significant percentages of land area are forests and woodland (2.73%), and the worst of all, are left fallow (6.48%) – mainly because of scanty rainfall and unreliable irrigation from snow-melt water, but also because of capacity failure of credit-constrained small landholders to undertake necessary investments for land improvement. Currently, only an insignificant 0.28% of land area is devoted to production of perennial crops – mainly, fruits. Thus, while the country throws enormous scope for development through tapping the vast potential of pasture land, fallow land, forest land, irrigation and fruit crops, well thought out and effective strategies are called for to realize this untapped potential.

Figure 3. 1: Map of Afghanistan as per UN Cartographic Center



Source: Reproduced from Oxfam (2009), p.2.

Table 3. 1: Current Land Use Pattern in Afghanistan

Land uses	000 ha	%
Total land area (1+2+3)	65223	100
1: Permanent pasture	30000	46.00
2: All other land	25613	39.27
3: Agricultural area (a+b+c+d)	9610	14.73
3a - Forests and woodland	1781	2.73
3b-Fallow land	4228	6.48
3c-Irrigated crops area	2457	3.77
Among: Permanent crops	181	0.28
3d- Cultivated rain-fed area	1144	1.75

Source: CSO: Afghanistan Statistical Yearbook 2016-17

Afghanistan has an estimated total population of 29.2 million, out of which 6.9 million (24 %) live in urban areas. The country has a settled population density of 42 persons per square km, one of the lowest in the world. More than three-fourths of the provinces have less than 100 persons per square km, while one-fourth have population in excess of 100 persons per square km. Administratively there are 368 districts and 34 provinces. There is no specific information on the number of villages in the country. However, some anecdotal reference mentions that it could be around 40,000 or so.

Some key features of the Afghan population are captured in Table 3.2 with break up for urban, rural

and nomadic population and between genders, wherever information is available. As the first line in this table indicates, the population share of children under 15 of 48 percent is among the highest in the world. High percentage of young age members in relatively large family structure results in a high dependency ratio, especially for the rural and nomadic population, thus imposing a heavy burden on the working population, given inadequate employment opportunities. Near exclusion of women in the working population coupled with high maternal and child mortality has further exacerbated this burden. The ever-increasing numbers of children and young adults, on the other hand, tend to have exceeded the absorption capacity of the education system and the market for employment opportunities.

Rows 6 to 13 of Table 3.2 provide fairly exhaustive information about the employment status of Afghan population. The prominent features as brought out by NRVA 2011-12 are as follows. 25% of the labor force which is not gainfully employed indicates the extent of shortage of jobs in the labor market. 17 percent of these people are found to be underemployed, while the remaining 8 percent are unemployed. The figures for the not-gainfully employed are sharply different between urban (18%) and rural (29%) areas. The corresponding figures for men and women are 22 and 39 percent, respectively. The extent of youth unemployment is somewhat higher than the overall rate (10% as compared to 8%). The relative size of own-account workers, day laborers and unpaid family workers, who constitute the extent of vulnerable employment is 81% - 79% for men and 87% for women.

Educational status of the population is displayed in rows 14 to 21 of Table 3.2. Youth literacy rate is better than the overall literacy rate, while both these rates are better in urban than in rural areas and for males as compared to females. Net attendance ratios are consistently lower for secondary and tertiary education as compared to primary education, for rural compared to urban areas, and for males vis-à-vis females. Obviously, the educational field of the country demands a lot to achieve.

Table 3. 2: Some Key Features of Afghan Population

Population features	Urban	Rural	Nomadic	Male	Female	National
1. Percentage of population under 15	42.0	50.1	53.0	-	-	48.4
2. Percentage of population 65 and over	3.3	2.2	2.3	-	-	2.5
3. Dependency ratio	83	110	124	-	-	104
4. Average household size	7.5	7.4	7.3	-	-	7.4
5. Infant Mortality Rate	34	54	-	49	46	(48)
6. Labor force participation rate	43.1	51.3	64.4	80.0	18.5	49.8
7. Employment-to-population ratio	39.2	47.1	61.0	74.5	15.5	45.7
8. Percentage not-gainfully employed population	17.6	26.9	28.7	21.8	39.3	25.0
9. Under-employment rate	8.6	18.7	23.3	15.4	22.8	16.8
10. Unemployment rate	9.0	8.2	5.4	6.4	16.5	8.2
11. Youth unemployment rate	13.6	9.9	4.4	8.1	18.8	10.4
12. Youth unemployment as percentage of total unemployment	46.3	37.4	24.9	38.1	40.8	39.1
13. Proportion of own-account and contributing family workers in total employment	59.3	85.6	95.7	79.3	87.0	80.5
14. Adult literacy rate (15 years of age and over)	53.5	25.0	7.2	45.4	17.0	31.4
15. Youth literacy rate (15-24 years of age)	71.4	39.1	9.7	61.9	32.1	47.0
16. Net attendance ratio in primary education	77.9	53.8	19.4	64.4	48.3	56.8
17. Net attendance ratio in secondary education	54.3	26.3	-	42.0	23.2	32.7
18. Net attendance ratio in tertiary education	13.1	2.4	-	8.1	2.7	5.4
19. Ratio of girls to boys in primary education	0.90	0.68	0.54	-	-	0.74
20. Ratio of girls to boys in secondary education	0.74	0.38	-	-	-	0.53
21. Ratio of girls to boys in tertiary education	0.65	0.17	-	-	-	0.42

Source: CSO (2014): National Risk & Vulnerability Assessment (NRVA) 2011-12

Section 3.4: Temperature, Rainfall, Irrigation and Landholding Features

Though on the whole the temperature in Afghanistan remains ambient, it displays wide variations across specific regions. The harsh and extreme weather conditions are manifested through wide variations in temperatures. In some regions like the border areas of erstwhile Soviet Republics, winter temperature drops to – 20/- 25 degree Celsius. Summers are generally hot with peaks in some regions touching up to 45 degrees Celsius.

In Afghanistan, the climate is usually arid continental with cold and relatively rainy winters and hot & sunny summers. However, there are substantial differences depending on area and altitude - the south is desert, many areas are cold due to altitude, and the far-east is relatively rainy even during summer, because of the effect of Indian monsoon.

The precipitation is generally scanty at semi-desert and desert level, except in the eastern regions, where it can exceed 500 ml per year, while in the far-east, near the border with Pakistan (Konar and Nurestan

provinces), it can touch even 1000 ml per year. Information of Afghanistan precipitation for the years 2000-2015 is provided in Table 3.3. Even within the low annual rainfall in the country, annual precipitation has been found to be fluctuating over the years (2000-15), affecting farm production. The bulk of the rainfall however concentrates between December and April, coinciding with winter and spring seasons, when snow and frost engulf good part of the land. In the early spring, rainfall increases further and March is often the wettest month, and later, the rains decrease and during June- September there is no rainfall.

Rainfall being scanty and volatile, farming in Afghanistan largely depends on irrigation from canal and dam water sources, which are often fed by snow-melt water from hilly regions. Only in specific provinces, 43% farming relies on deep well-pumps.

In Afghanistan, farm sizes in excess of 10 ha and above represent 8% of the land holdings, but account for of land. On the contrary, 58% of the farms are less than 2 ha of land in size, but cover only 10% of the land. The land distribution therefore is highly skewed in favor of large land holdings (Table 3.4). The estimated Gini coefficient (measure of inequality) in the distribution of land holdings is estimated at 0.69, showing high degree of inequality in the society in terms of variation in size of agricultural landholdings.

Some 38 percent of all households in Afghanistan – approximately 1.4 million households – own any irrigated farm land (Table 3.5). The majority of these land owners (58 percent) have a farm size of less than 4 jeribs (0.8 ha.), whereas the median and mean irrigated land size is, respectively, 3 and 6 jeribs (1.2 and 0.6 ha.). Compared to NRVA 2007-08, the share of land owners with small landholdings – below four jeribs (less than 1 ha) – has increased and the mean size of land owned shows a decrease from 6.7 to 6.0 jeribs, which may be due to increased population pressure (NRVA 2011-12). The median size being considerably lesser than the mean value, the table below clearly establishes that irrigated land which are premium land asset for crop production in Afghanistan is essentially dominated by the small holders.

Table 3. 3: Table 3. 3: Monthly & annual Rainfall in Afghanistan (Celsius)

Year	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Annual
2000	36	41	34	6	3	4	8	6	6	28	16	22	210
2001	19	27	36	10	5	6	9	9	3	7	15	30	174
2002	29	53	36	55	17	9	2	6	2	3	25	54	292
2003	28	73	57	42	30	6	13	9	6	4	35	21	324
2004	61	23	18	27	10	6	7	9	3	11	21	85	280
2005	53	95	79	17	60	5	5	6	2	5	12	9	348
2006	57	46	43	21	6	4	8	18	5	10	52	48	317
2007	22	78	79	20	11	10	10	7	3	1	7	43	290
2008	58	30	7	30	9	6	21	20	5	7	8	33	234
2009	52	60	40	90	22	15	5	4	2	4	13	59	366
2010	25	69	34	26	47	12	19	24	6	5	9	2	278
2011	22	90	56	41	15	6	6	11	3	13	50	5	318
2012	35	70	48	81	40	3	7	10	8	13	31	42	388
2013	20	46	87	60	5	8	9	16	3	29	28	14	326
2014	18	44	81	44	23	5	7	8	5	15	40	6	297
2015	34	87	76	43	24	5	11	15	9	22	43	19	388

Source: www.worldbank.org/climateportal/index.cfm?page=downscaled_data_download&menu=historical

Table 3. 4: Farm Size and Distribution of Land in Afghanistan

Farm Size (Ha)	% Farms	% Land
< 0.5	21	1
0.5- 0.99	16	2
1.0 – 1.99	21	7
2.0- 4.99	24	19
5.0 – 9.99	10	18
10.0 – 19.99	5	19
20.0 – 49.99	2	19
>50.0	1	5
Total	100	100

Source: FAO Winter Survey, 2002-03.

Table 3. 5: Distribution of households by ownership of irrigated land (2011)

Ownership	2011
No ownership (%)	62.1
Any ownership (%)	37.9
Total (%)	100.0
Ownership Distribution (%)	
< 2.0 jeribs	31.1
2.0-3.9 jeribs	27.2
4.0-5.9 jeribs	14.0
6.0- 9.9 jeribs	10.0
10.0-19.9 jeribs	12.6

> 20.0 jeribs	5.1
Total (%)	100.0
Mean Land size (jeribs)	6.0
Median land size (jeribs)	3.0

Source: Estimated from NRVA Survey (2011-12); Note: one jerib = 0.2 hectare

Another distinctive characteristic of land ownership in Afghanistan is that as per NRVA 2011-12 total percentage of households with access to land is about the same as that of owning land (37 percent). This is practiced by land renting and land mortgaging, especially by the urban households that own land in the rural areas and lease out their lands to other households for cultivation. They are thus absentee landlords. The occurrence of this practice is supported by the finding that access to irrigated land by urban households is lower than ownership.

The incidence of ownership of rain-fed land is limited to only 17% of households, thus leaving out 83% of the households who do not own any rain fed land. Of these 17%, about 30% of the households own land less than 4 jeribs, and about 40% on them own less than 6 jeribs of land (Table 3.6). On average, a typical household owns 16 jeribs of land, which is more than double the size of average irrigated land. In view of the NRVA finding that some 11 percent fewer households have actually access to rain-fed land than owning it (26 percent for urban households and 9 percent for rural ones), it could be deduced that renting-out of this type of land is relatively common, especially for urban households.

Farming households in Afghanistan use less rain-fed land than irrigated land. The rain fed lands do not make much contribution in the marginal productivity of land, as productivity of irrigated wheat crop, has attained a level which is 2.7 times higher than the same on rain-fed land. Availability of irrigation is therefore critical for improving availability of cereal and other crop production for food security, within the limited coverage of arable land (only 15% of geographical area).

Table 3. 6: Distribution of households by ownership of rain-fed land (2011)

Ownership	2011
No ownership (%)	83.2
Any ownership (%)	16.8
Total (%)	100.0
Ownership Distribution (%)	
< 2.0 jeribs	11.3
2.0-3.9 jeribs	17.9
4.0-5.9 jeribs	14.9
6.0- 9.9 jeribs	13.7
10.0-19.9 jeribs	21.4
> 20.0 jeribs	20.8
Total (%)	100.0
Mean Land size (jeribs)	16.4
Median land size (jeribs)	7.0

Source: Estimated from NRVA Survey (2011-12); Note: one jerib = 0.2 hectare

From NRVA survey findings it is found that total irrigated land area is around 16.8 thousand square km, with Helmand, Balkh and Farah accounting for almost one-third of this total area. However, much of this area is marginal land, as country-wide almost 20 percent of the irrigated land was left fallow, leaving less than 14 thousand square km irrigated land cultivated. Very large differences exist with regard to the share of un-cultivated irrigated land. Of the 34 provinces, 18 record more than 10 percent fallow irrigated land, nine record more than 20 percent, and six – Paktika, Zabul, Nimroz, Jawzjan, Ghazni and Farah – more than 30 percent, of which in the latter almost half of the irrigated land is not cultivated. This phenomenon is explained by the fact that irrigation water is mostly available from snow-melted water that flows down the river and spring, which cannot be guaranteed every year, and is entirely dependent on the atmospheric factors.

NRVA 2011-12 further reveals that the total rain-fed land area is slightly larger than the irrigated land area: 18.1 thousand square km, with Faryab, Herat, Takhar and Ghazni provinces accounting for half of the rain-fed land. However, well over one-third of this land (37 percent) is left uncultivated. In seven provinces – Parwan, Bamyan, Urozgan, Ghazni, Baghlan, Wardak and Kandahar – the extent fallow is even more than half. Lack of rain is the predominant reason for not cultivating rain-fed land (53 percent), followed by infertility of the land (18 percent) and financial constraints (13 percent). The practice of rotating between cultivating and leaving land fallow is common to deal with low productivity on marginal rain-fed land in Afghanistan.

Section 3.5: Agricultural Cropping Pattern, Production & Productivity

The crop profile of Afghanistan is heavily focused towards cereal crops accounting for more than 95% of annual cropped area, and around 2.5% area each are under vegetable and oil seed crops. Within cereal crops, wheat constitutes 79.3% of area, barley 7.5%, rice 4.1% and maize 5.2%, respectively. According to the World Bank Afghanistan Country Snapshot October 2015, wheat is the most important cultivated crop as evidenced by Afghanistan having the world's highest annual wheat consumption (160 kilograms/person). Among vegetable cultivation, potato area accounts for 24.5%, followed by 9.1% area under onion and the balance area is under miscellaneous vegetable crops.

The country had an area of 336 thousand ha under total fruit crop area in 2016-17, with almond crop making up for 19 thousand ha (5.8% of total fruit area), while walnut and olive crops taking up about 2-4 thousand ha each respectively, and the remaining area is used for miscellaneous fruit crops.

Wheat is the main food crop of Afghanistan. The total wheat production in Afghanistan is mostly contributed by irrigated wheat. More than 80% of wheat production comes from irrigated wheat area.

During 2016-17, the average yield of wheat is estimated at 1980 kg/ha, with yield in irrigated wheat is 2490 kg/ha, more than double of rain fed wheat yield (1031 kg/ha). An analysis of yield gap in irrigated wheat is done across agro- ecological zone (AEZs) of the country (Table 3.7). It is found that the yield gap is highest in AEZ 1 (Badakhshan, Noorestan and Kunar provinces) – 1148 kg less than the yield of AEZ 5. AEZ 4 (Balkh, Samangan, Sar e Pul, Jawzjan and Faryab provinces) also report significant yield gap of about 910 kg/ha. About 35% of total wheat crop being rain fed, increase in irrigated area as such would therefore enable increase in total production of wheat nationally. Irrigated wheat thus becomes a priority crop for the country. The World Bank Agriculture Sector Review has also advocated expanded investments in irrigated wheat because it could increase agricultural growth quickly and lead to significant growth in agricultural employment and rural transformation. However, Afghanistan's overall wheat yield lags behind other countries in the region.

Section 3.6: Importance of Horticulture for the Afghan Economy

According to the World Bank analysis³⁴, agriculture will continue to provide a vital source of GDP growth, subsistence, and employment for the Afghan economy. Agriculture and agriculture-related activities (including horticulture & livestock) currently play a critical role in employing 59 percent of the labor force and contributing 23 percent of the country's Gross Domestic Product.

Table 3. 7: Estimated yield gap in irrigated wheat production across AEZs

Agro eco-zone	Area in ha	Production in tons	Yield (kg/ha)	Yield gap (kg/ha)
1 Alpine	68960	124550	1806	1148
2 Continental semi-arid moist Mediterranean with winter frost	250460	597640	2386	568
3 Dry Steppe climate	310050	719770	2321	633
4 Continental desert climate	221180	451770	2043	911
5 Warm semi-Mediterranean climate	319180	942850	2954	0
6 Warm semi Mediterranean climate	88590	230480	2602	352
7 Continental semi-arid Mediterranean climate	236720	657740	2779	175

Note: Agro Ecological zones are prepared by Dynamic Vision, Afghanistan based on information gathered from FAO-Afg and ICARDA-Afg. These AEZs have been accepted by FCO MAIL through the Inception Report of Dynamic Vision.

The government's strategy for economic growth and poverty reduction includes development of perennial horticulture and livestock as key activities. The horticulture sector contributes 34% of total agricultural GDP, while livestock sector makes up another 15% (Table 3.8). Thus, nearly 50% of the

³⁴ Revitalizing Agriculture for Economic Growth, June 2014

agricultural GDP is contributed by commodities that are generally produced for the market, a highly prospective area for export, provided the constraints are addressed.

Table 3. 8: Horticulture and Livestock Contribution to Agricultural GDP (%)

Sub sector	Contribution to National GDP	Share of Agricultural GDP	Contribution to Employment
Horticulture	US \$ 1.40 billion	34%	More than 2 million people
Livestock	US \$ 0.68 billion	15%	1.1 million FTE

Source: USAID Afghanistan Agriculture Consolidated Project Appraisal Document (PAD), April 2017, Public Version

During 1970s, Afghanistan was a top exporter of horticultural products (e.g., 20 percent of raisins in the world market), a significant exporter of wool, carpets, and leather goods, and a small exporter of cereals. The country was also self-sufficient in meat, milk and cereals. However, because most of the agricultural infrastructure—rural roads, storage facilities, and irrigation systems—was destroyed by 30 years of conflict, and the Afghan population has also grown rapidly, the country became an importer of wheat, meats and dairy products.

There are various trade impediments to the export of fresh fruit. These are cargo transportation (by air and land), packaging, import duties, post-harvest and value addition, and export promotion. Among these constraints, the main ones—particularly in land transport of Afghan exports of fruits and vegetables through Pakistan and the Wagah border crossing into India—are bribes extorted by illegal actors, and delays resulting in breaks in the cold chain and eventual spoilage of produce. The lack of cold storage facilities for produce and available financing, and inadequate transportation are the most common barriers to building these businesses. At the national fiscal level, less than 1% of total operating budget is allocated to agricultural sector, while as mentioned earlier, it contributes up to 23% of national GDP.

Fruit crops are important for the country, but they are also highly influenced by weather condition. Grape, melon, watermelon and apple together account for more than 75 per cent of fruit crop area. These are seasonal crops and favorable weather condition impacts their crop area very significantly. Within oilseed crops, common flax seed and cotton seed accounts for more than 80% of the area under oilseeds. Area under apple crop has increased in 2016-17 compared to 2014-15 and 2015-16. Area under grape and apricot however remains steady over the years (Table 3.9).

Table 3. 9: Area under fruit, oil seeds and vegetable crops (ha)

Crops	2016-17	% Area	2015-16	% Area	2014-15	% Area
TOTAL FRUITS	3,36,010	100.0	2,18,636	100.0	1,81,773	100.0
(i) Orange	970	0.3	1005	0.5	1050	0.6
(ii) Citrus Fruit nec	1662	0.5	300	0.1	300	0.2
(iii) Apple	19,365	5.8	13,038	6.0	12,247	6.7
(iv) Pear	1346	0.4	717	0.3	632	0.3
(v) Apricot	8595	2.6	9116	4.2	9005	5.0
(vi) Peach	3110	0.9	2498	1.1	2377	1.3
(vii) Plum	3302	1.0	4931	2.3	4825	2.7
(vii) Berry	3800	1.1	3800	1.7	3800	2.1
(viii) Grape	82,450	24.5	78,681	36.0	78,405	43.1
(ix) Watermelon	74,679	22.2	39,129	17.9	19,835	10.9
(x) Melon	79,951	23.8	34,270	15.7	22,722	12.5
(xi) Figs	811	0.2	1525	0.7	1525	0.8
(xii) Fruit fresh nec	55,969	16.7	29,626	13.6	25,050	13.8
TOTAL OIL SEEDS	1,27,373	100.0	92,383	100.0	74,848	100.0
(i) Sunflower seed	493	0.4	210	0.2	210	0.3
(ii) Sesame seed	18,766	14.7	24,241	26.2	13,508	18.0
(iii) Cotton seed	51,102	40.1	42,124	45.6	35,000	46.8
(iv) Common flax seed	56,435	44.3	21,917	23.7	21,917	29.3
(v) Mustard seed	577	0.5	3891	4.2	4213	5.6
Total vegetable fresh	1,45,980		89,246		85,662	
Total medicinal seeds	4500		4500		4500	

Source: Afghanistan Statistical Yearbook 2016-17, Islamic Republic of Afghanistan

The Afghanistan Statistical Yearbook publishes data on important fruit crops. During the current year, the country produced 1187 thousand tons of fruits, of which grape alone accounted for more than 70% of production followed by apple with 12% share and pomegranate 8% share (Table 3.10).

Table 3. 10: Production of important fruit crops (2016-17)

Crop	Production (tons)	%
Peach	15,306	1.3
Almond	32,843	2.8
Pomegranate	99,871	8.4
Apple	1,40,903	11.9
Grape	8,74,541	73.6
Walnut	6,515	0.5
Apricot	17,894	1.5
Total	11,87,873	100.0

Source: Afghanistan Statistical Yearbook 2016-17,

There are an estimated 600,000 farmers involved in horticulture in Afghanistan. These farmers are currently constrained by several factors. One is that a large percentage of their land is still dedicated to low value crops such as wheat or other cereals to ensure food security. Moreover, antiquated production methods and technology reduce the quality of their products and yields from farms.

Other obstacles to developing horticulture exist at the processing and marketing levels of the supply chain. Processing facilities for horticulture products are either old or non-existent, compounding the problem of poor quality product at the farmer level. Export potential is held back by the stringent hygiene and phytosanitary standards in major Western markets such as the EU, the US, and Asia. Political instability has contributed to export marketing problems. Instead of seeking the best customers in the world for Afghan horticulture products overseas, current sales patterns are often opportunistic with Afghan exporters selling to markets like Russia or Pakistan, which pay low prices for Afghan products. Now that a measure of stability and peace has returned to the country, the time is right to begin investing in modern processing equipment and customer knowledge to find the most attractive markets for horticulture products from Afghanistan.

Section 3.7: Importance of Livestock for the Afghan Economy

The livestock sub-sector is another key component of the Afghan economy. The Afghan Agriculture Master Plan 2008 duly recognized the significance of horticulture and livestock sectors to support incomes and employment of the marginalized population as also of the farming community in general during the period of post-conflict rebuilding of the rural economy. Given huge untapped potential of pasture lands, special emphasis is placed on the livestock sector as this could place cash incomes in the hands of the livestock keepers in the short run, while horticulture sector requires a considerable gestation period to achieve the same.

The NRVA data suggest that the number of cattle is reduced compared to 2002-03 when last livestock census was conducted. However, the numbers of small ruminants, especially sheep, have increased. Maintenance of large ruminant like cattle requires provision for improved feed, breeding services, preventive and curative veterinary care and above all a developed market for milk & milk products and organized milk collection. Somehow, these facilities have not developed in Afghanistan, thereby impacting number of cattle population to fall.

On the contrary, the small ruminants require relatively lesser care for management and could survive on the natural resources and pasture and grazing land that are sufficiently available in the country. However, there are issues like encroachment of pastures by irrigated/rain-fed agriculture, insecurity and loss of grazing rights, but these could not impact growth in their numbers and have become useful for supporting cash income for the livestock keepers. Estimated data on per household possession of different types of animal also support the above fact - average holding per family in case of cattle is only 2.0 while that of sheep is 16 and goat 10, respectively. Rearing practice of cattle is largely intensive, based on stall feeding, while that of the small ruminants is extensive, based on natural resources (Table 3.11).

Chicken-holding households are especially common with 44 percent households nationally and 57 and 17 percent for rural and urban areas, respectively. This is particularly important for women, as they are usually responsible for tending poultry and also extract direct benefits from poultry products. Donkeys, goats and sheep are especially important for *Kuchi* (nomadic) households, as ownership of these animals in this population is as high as 65, 70 and 77 percent, respectively. Two-thirds of all camels are owned by *Kuchis*.

The NRVA data also suggest that in rural areas the incidence of ownership of cattle, goats and sheep are, 49, 70 and 77 per cent, respectively. This is consistent with the relative preference of the rural habitants in terms of animal keeping practices and income support and also for family nutrition. In the

near future, livestock seems to become a major source of growth in farm incomes and stimulus to the rural non-farm economy. That is reinforced by the potential to displace the bulk of current large imports of livestock and livestock products.

Table 3. 11: Livestock population as per 2002-03 Census and NRVA data of 2011-12 by type of animals

Animal type	Census 2002-03 numbers	NRVA 2011-12 numbers		
		Animal	Household	No of animal per household
Cattle	3,715	2,854	1,418	2.01
Oxen		474	326	1.45
Horse	142	102	83	1.22
Donkey	1,588	1,519	968	1.56
Camel	175	481	98	4.90
Goat	7,281	10,445	1,049	9.95
Sheep	8,772	18,018	1,108	16.26
Chicken	12,156	13,176	1,614	8.16
Other Poultry	1,022	1,367	237	5.76

Source: NRVA 2011-12; **Note:** Livestock Census covered only resident population, while NRVA covered resident population plus Kuchi (nomadic) population

Section 3.8: Problems of Indebtedness, poverty and food security

Availability of institutional credit for farm production has been a major bottleneck in realizing agricultural potential of Afghanistan. This problem is further compounded since the closing down of Afghanistan Agriculture Development Bank, the national bank for agricultural finances. In the absence of a national institution, USAID has created 100 million USD as corpus as Agriculture Development Fund, and is implementing different financing schemes through numerous micro-finance agencies. However, the general feeling is that these micro finance agencies have limited reach, and are localized and generally shy in extending credit facilities for agriculture production. Table 3.12 below covers the incidence of indebtedness among rural, urban and kuchi (nomadic) population, and does not necessarily relate to the agriculture sector.

Table 3. 12: Incidence of indebtedness (%) and amount of outstanding loan per household

Particulars	% Households indebted and amount of loan outstanding			
	Urban	Rural	Kuchi	Afghanistan
No debt (%)	46.2	45.1	40.8	45.1
With debt (%)	53.8	54.9	59.2	54.9
Distribution of indebted households (%)				
Less than 25,000	21.2	35.5	41.2	32.6
25,000-49,999	13.8	23.1	22.1	20.9
50,000-79,999	16.5	17.8	12.3	17.1
75,000-124,000	16.9	12.0	11.1	12.8
125,000-299,999	18.4	8.1	8.8	10.5
>300,000	13.2	3.5	4.5	6.1
Total	100.0	100.0	100.0	100.0
Mean debt	124,359	63,444	64,444	76,800
Median debt	70,000	35,000	30,000	40,000

Source: National Risk and Vulnerability Assessment Survey 2011-12

As Table 3.11 brings out, about 60% of the outstanding loans in the rural areas are limited to less than Afs 50,000, and about 70% of them are up to Afs 80,000. Only 10% of the outstanding loans are in excess of Afs 125,000. Expectedly, in the urban areas, the proportion of large outstanding loans are relatively greater at 30%, compared to 10% of the rural loans. Looking at the bulk of the rural loans, it can be inferred that these loans are most likely to be for agricultural purposes. The average outstanding loan per Kuchi family is similar to average rural loan per rural family due to the fact that the Kuchi families also have similar occupation and livelihood as other families.

Although indebtedness is one of the factors, which is both cause and effect of poverty, some direct information on Afghan poverty are also available. NRVA 2011-12 reveals that the consumption pattern of 36.5 percent of the population is below the poverty line, and that at national level no change is observed in poverty level since NRVA 2007-08. As NRVA 2011-12 interprets it, the stable poverty figures must mean that due to rapid population growth, the volume of poor people must have increased in absolute terms.

The two consecutive NRVA reports show that inequality in consumption has increased over time. While the Gini Index has gone up from 29.7 to 31.6 between the last two NRVA surveys, the share of the poorest quintile in national consumption has gone down from 9.1 to 8.5 percent.

The national poverty figures, however, hide significant differentiation over space. As per NRVA 2011-12, the urban poverty headcount is 28.9 percent, compared to 37.7 percent for rural residents and 53.8 percent for the Kuchi population. Similarly, a large gap exists between the region with the lowest share of population living under the poverty line (Southwest, 28.0 percent) and that with the highest (Northeast, 50.9 percent).

Poverty is found to be positively correlated with household size and the dependency ratio. It is also

found that underemployment is even more important than unemployment to make households vulnerable to poverty. So, there is need to focus more on labor market policy on not-gainfully employment instead of only unemployment.

NRVA 2011-12 analysis further indicates that around 30.1 percent of Afghanistan's population don't get calorie intake sufficient to sustain a healthy and active life. This figure implies that food insecurity has slightly worsened as compared to the NRVA 2007-08. Out of the total number of the food-insecure, 8.5 percent are very severely food-insecure and 9.5 percent severely food-insecure. This is over and above 19.4% of the population, who have insufficient protein consumption, which affects the nutrition of children under five.

Food-security is also found to vary by residence, household characteristics, season and geographical region. Some 34.4 percent of the urban population is food-insecure, compared to 29.1 percent of the rural population and 25.6 percent of the Kuchi population. Households with larger household size, higher ages of the household head and with a widowed or divorced household head are more likely to be food insecure. Relatively many more food-insecure people live in the North-eastern, Central and Central Highlands regions.

The annual cultivation cycle also significantly affect variation in food security across seasons. Generally, winter and spring time tend to be most difficult seasons and food security increases in summer and autumn. The variation across seasons in urban areas is less pronounced because in urban areas more households rely on market purchases rather than own production of food.

When coping with household shocks, the majority of households are found to use short-term strategies including decreasing food expenditure and reducing food quality. Around one-third of the households reduce food quantity or purchase food on trader credit.

Section 3.9: Infrastructural bottlenecks

The agriculture sector in Afghanistan is faced with multi-sectoral challenges. Lack of adequate infrastructure- - irrigation, storage, roads, electricity, processing & packaging are some of the major bottlenecks in making the agricultural commodities competitive regionally and globally. A typical land-locked country like Afghanistan has inherent disadvantage in cost economics. To illustrate, the cost of exporting a container from Afghanistan to Kuwait or Dubai is about four times the cost of exporting from North America or Europe to these places. According to one report, there are now 20 exporters active in Afghanistan, and only 2 of them have adequate packaging facility that meets international standards. Moreover, the legal environment is also weak for export. After 3 decades of war and destruction, infrastructure continues to be ill- developed, even the basic infrastructure is not in place.

To meet market demand the agriculture sector requires extensive expansion including electricity, irrigation, road, cold storage, ware houses and road network. Barring the main markets and urban centers, the transport network connecting rural areas (production centers) to consumption centers are not developed. This is also a major bottleneck in the linkages with the principal consumption centers. Despite significant engagement of the donors since 2001, the infrastructure development outcome have been sporadic and not conducive for the rural areas. It is important the government and the donors need to work together to establish basic infrastructural facilities as per local needs. The most important infrastructure to promote agri-business is cold storage, processing and packaging facilities. Irrigation, as mentioned earlier, is a critical input for bringing more land under cultivation and increase productivity and production. Credit needs for agriculture, agri-business and export market are grossly inadequate. The absence of formal credit forces the fruit and vegetable growers to enter into advance market contracts with the local traders at prices that are much lower than the market prices. The Pakistani traders provide advance credit to the grape vine owners and owners of other horticulture crops and vegetable growers and enter into forward contracting with the local growers, buy their produces at exploitative prices, affecting farmers' income and profitability.

Section 3.10: Thought process emerging out of the foregoing sections

The stylized features which emerge out of the above-stated description of the Afghan economy at the end of a nearly three decades of civil war and conflicts seem to suggest that the country suffered from twin problems of government failure alongside missing institutions and organizations, without which a market system can't evolve. North and Thomas (1973) has provided a general theoretical framework for institutional change while attempting to develop a unified explanation for the growth of Western Europe between 900 and 1700 A. D. – thereby showing that such a vast period was needed through interaction between forces of demand for and supply of institutions to put in place the basic ingredients for a market system to surface. While elaborating on the challenges of adopting a market system in erstwhile Soviet-block countries after the collapse of communism, Milgrom and Roberts (1992) too has highlighted the need for developing systems of ownership and property rights, banking, credit and insurance, contracting, accounting, laws, regulation, competition policy, fiscal policy, and social services including education, training, and law and order, which must be developed in a well-orchestrated manner. The same points hold good in case of Afghanistan. Unfortunately, the Afghan people are desperately poor, who have neither awareness, nor knowledge, nor economic and political power to undertake a systematic approach to end the anarchy, the country is in. At this critical juncture, however, they can't any longer afford to wait and see if competitive markets do evolve on their own one fine morning, when all basic infrastructure are either missing or destroyed. However, the minimum

the country needs to survive is to have external and internal protection and defense, on the one hand, and somehow sustaining the largest income source, agriculture, on the other. It is therefore no wonder that the Government of Afghanistan as well as the vast international community have placed their faith on cooperative mode of production and organization for Afghan agriculture not only to repair the damaged social fabric in the vast and difficult terrains in the countryside, but also to initiate at least grass root level development at a slow but steady pace even in the short run, so that the country doesn't slip back to a state of anarchy and no future. It is presumed that this short run strategy would work and become sustainable, so that it will have a snowballing effect in the future which will push the country into a long run growth path. Naturally, many ifs and buts are there, but it is definite that such an effort must start from agriculture, the most backward but the largest sector with the highest potential for employment and development. The chapters which will follow the present one will be geared towards spelling out the details of this cooperative strategy.

CHAPTER 4

History and Status of Afghan Agricultural Cooperative



History and Status of Afghan Agricultural Cooperatives

Section 4.1: Introduction

Anecdotal reference to the history of development of cooperative is blurred by absence of published literature, official reference or even known unpublished manuscript. While one manuscript available with the Directorate of Agricultural Cooperatives Development (DACD) of the Ministry of Agriculture, Irrigation & Livestock (MAIL)³⁵, written in Persian, indicates that in 1955 some 13 groups of Qaraqul (sheep skin aggregators) of northern region had formed an association of cooperatives, which however did not succeed, it is important to highlight “collective actions” that were prevalent in the rural society of Afghanistan to manage community needs, common property resources and other societal necessities wherein implicit norms favored social mobilization through cooperation. It is not easy to associate such practices by their years of origin, but historians could safely refer to them as age-old practices in the society, which had strong resemblance to mutual cooperation. The well-known practices of *Hashar* and *Karez* which constitute only two examples of many such practices where some norms of cooperation seem to have been traditionally followed in the Afghan society.

The purpose of this chapter is to look for the roots of cooperation in the traditional Afghan society and to bring out the reasons for ups and downs in the growth of cooperative form of business, so that the Afghan government’s current strategy of rural development through the cooperative route can be critically analysed and placed on a solid and rigorous platform. This chapter is organised as follows. The next two sections briefly describe the management of *Hashar* and *Karez*. Section 4 covers the early phase of cooperative development beginning from 1955 till Soviet invasion in 1979, while the next two covers development of cooperatives during the Soviet regime and during *Muzahideen* and *Taliban* regimes, respectively. Section 7 covers the recent period since formation of the Transition Government in 2001. The final section brings out the lessons for future development of cooperatives in Afghanistan.

Section 4.2: Management of *Hashar*

The rural Afghan society is traditional and carries a strong social value system. The principle of mutual cooperation is strongly embedded in its culture. *Hashar* is a social norm following which fellow citizens provide mutual help to each other by contributing voluntary labour for activities like covering as well as plastering of roof during the time of necessity at the family level. Generally, 8-10 man days are voluntarily contributed to accomplish this specific task of a family, on a pre-determined day (mostly on

³⁵ Niazy (2016)

Friday). The voluntary labour contributors are known as *Hasharis*; they work for the day, dine at the place of the labour seeker and create a feeling of oneness through mutual benefits within the village society.

Hashar is also practiced for building of village level social infrastructure through mobilization of voluntary labour. Normally, the activities that are practiced relate to cleaning of canal, cleaning and rehabilitation of Karez, rehabilitation of school building, mosque, transplantation of paddy, harvesting of paddy, cutting of snow for road movement during winter months, building of village community hall etc.

A socially defined person for managing community irrigation system and field channels through the informal association of water users is known as *Mirab*, who would communicate through the loudspeaker of the village *Masjid* seeking voluntary labour contribution from the water users on a fixed day and time for undertaking works related to cleaning up of field channel, de-sedimentation of the main canal and other village community development activities. The strength of this informal practice for community and social benefit in the village ecosystem is one of greatest examples of informal cooperation among the villagers and such practice is deeply ingrained in the psyche of common people.

The hierarchy of participation of villagers through their contribution of voluntary labour is not necessarily confined within their families and their own villages. The Afghan village society demonstrates a much broader responsibilities system through these voluntary labour contribution by connecting their villages with nearby villages as also with district road to increase accessibility of their own village. In such instances, the *Malek*, the community leader of a particular village, would urge influential village headmen, designated as *Khan* or *Qumandan*, to mobilize voluntary labour for activities like rehabilitation of school, health clinic, and reconstruction of village road for upward connectivity with district road and so on.

If the voluntary labour commitment is for a longer duration, then the persons who would actually participate in offering their manual labours would be termed as *Begar*, in government parlance. Each village would contribute relative to the size of the village (population size) voluntarily, without any benefit, cash or kind, and what is more heartening is that even the small equipment required for participation in these collective efforts are also mobilized individually, without any monetary consideration. The informal system of mutual cooperation therefore extends from the perimeter of individual house to the village where they reside, and beyond the village, which embodies a deep sense of cooperation in almost every sphere of the village life in Afghanistan. The principle of cooperation for mutual benefit was therefore strongly reflected through their collective actions benefitting the rural

society.

Section 4.3: Management of Karez

Karez, a traditional practice of harnessing ground water, is an important source of water in Afghanistan. It provides water to about 6% of the irrigated land in the country. About 6,000-7,000 *Karez* in Afghanistan provide irrigation to over 170,000 ha of land, as well as provide drinking water and water for livestock in 11 provinces³⁶.

Under this system, an underground canal where the water flows via gravity from the water table is accessed by a well called the “mother well” to the end point called “daylight point”. From this daylight point, field channels are constructed to take water down the agricultural lands for irrigation purpose³⁷. The principle of community operation and the mechanism of maintenance of *Karez* provide interesting lessons for solidarity among the water users and a sense of belonging at the community level.

Afghan communities have a tradition of viewing themselves as fundamentally autonomous in matters relating to water management. Water is usually managed locally by a social organizer called *Mirab*. A *Mirab* is usually an individual appointed among the landowners by the landowners, who usually lives in the area they manage, and they are usually paid by the landowners in kind, which is basically some apportion of their crop harvests. The function of the *Mirab* is to effectively organize the distribution of water, enforce water rights, resolve conflicts arising from water related disputes, and organize the cleaning and maintenance of the irrigation system. The *Mirab* system could do this because it was a community based system and each *Mirab* was rooted in the communities they serve. The *Mirab* also has knowledge about local water rights and they have the capacity to enforce these rights with the social pressures they command. The user fee for using *Karez* irrigation is directly proportional to the extent of water use.

The maintenance of a *Karez* is a difficult and labour intensive task, which is done communally. The task of communal engagement in repairing of the *Karez* system in the rural area is a testament to its importance in the community engagement and social relations. According to some observations, the importance of the *Karez* overrides other individual interests and forces people to cooperate around issues dealing with the *Karez*. These links and relations created around the *Karez* then naturally flow into other parts of people’s lives.

The *Karez* excavator (locally called *Karezkan*) is a good illustration of the above mentioned scenario. The *Karezkan* is a local expert on the construction and maintenance of the *Karez*. Due to decades of

³⁶ Qureshi (2002)

³⁷ Mustafa (2014)

war there has been degradation in the human capital required to construct and maintain *Karez*s. In other words, the number of *Karezkan* available has gone down. Still the few *Karezkans* available are shared between villages. According to the local respondents this has had a positive effect on the relationship between people from different villages. The water made available by the *Karez* also signify generosity among and across villages.

Through the practice of *Karez* system of irrigation and domestically evolved system of its management, the traditional rural society of Afghanistan amply demonstrates the prevalence of social bonding and community participation in managing common property, and a sense of fellow feeling among people who live in the same area, the above discussions bring to the table some of the interesting social norms or rules that the villagers had evolved among themselves, and are still practiced seamlessly in the rural hinterlands.

It is interesting to note that many indigenous management principles of rural Afghanistan, as demonstrated through *Hashar* and *Karez*, are akin to the modern day's principles of cooperation being propagated by the International Cooperative Alliance (ICA) since 1995. These are the global heritage of the Afghan society, which are quite similar to the basic tenets of modern day cooperative values and principles.

Section 4.4: Early Phase of Cooperative Development

The history of cooperatives in Afghanistan reveals that during the year 1955, for the first time in Afghan society, 13 groups of *Qaraqul* (sheep skin, used for making hat and coat for people living in the colder area) had organized themselves to form an association of cooperatives in the northern region of Afghanistan. However, due to absence of any legislation, legal guidance, and enabling institution, the initiative had fizzled out. Moreover, at that point of time, as per the record suggests, the farmers were engaged in sericulture -- silk worm to silk production, and due to some reasons or other, mostly related to lack of technical staff for cooperation, absence of international standards and guidelines, the attempt to form an informal association of sericulture farmers too failed.

During 1961-1963, the Rural Development Department under the supervision of the-then Prime Minister was established. This department started its activities in the rural areas, recruited local experts for giving instructions and guidelines to local villagers. The International Labour Organization (ILO) expressed their interests to establish farmer cooperatives in villages under the supervision of the Rural Development Department. The local staff, supported by the ILO, had surveyed Logar province to establish a Consumer Cooperative in Kutub Khill village. After the establishment of the cooperative, the members started benefitting, and subsequently several consumer cooperatives were established.

These cooperatives were supervised under the direct supervision of the Prime Minister's Office till 1969. After that, this supervisory function was transferred to the Rural Development Department.

The technical staff who had worked as specialists (cooperative) suggested the following activities for sustainability of cooperatives:

- 1 Provision of a draft cooperative law
- 2 Establishment of a training centre for staff as well as for the farmers
- 3 Preparation of a comprehensive plan for establishment of cooperatives

Somehow, the suggestions could not be implemented. The ILO support had also stopped by then and the rural development activities had either become dysfunctional or collapsed.

At the end of 1969, a project entitled Policy Action Climate Change Adaptation (PACCA) started activities for establishment of a Credit Cooperative under supervision of the Agricultural Extension Department. This was supported by the Swedish International Development Agency (SIDA) and the Food and Agriculture Organization ((FAO) of the United Nations. As a first step, they established one training centre in Kabul, a second centre in Baghlan and a third one in the northern region of Kabul city (Kuhdaman area).

The trainees who had completed 12th Class from Technical and Vocational schools were given cooperative training for 18 months. On the other hand, those who had graduated from Faculty of Agriculture were given training for 6 months. During the training period, different subjects such as farm management, cooperative credit, accounting, finance, filing system and agricultural subjects like marketing, agricultural extension, plant protection program, village sociology etc. were taught. After completion of the training programs, they were engaged in matters related to promotion of cooperatives.

During this phase (1969-73), 11 students were awarded scholarships in cooperative discipline. On completion of their training program, they were engaged in building up awareness program in the villages for acceptance of the theory of cooperative principles and enjoying the benefits of cooperation, which resulted in the establishment of one village cooperative, named Haji Payk Primary Agriculture Cooperative in Haji Payk village of Shakar Dara district. This was registered under the provision of Company Law of the Ministry of Commerce.

Experiences gained during this first phase were utilized in the second phase of the project (1973 – 1974). The staff who were responsible for organizing primary cooperatives in the first phase could overcome challenges that came in their way during the second phase and number of new cooperatives were established. The cooperatives were supported by technically qualified and experienced staff; provision

of required materials were also made, and agricultural production tools and equipment were supplied - these facilities and provisions enabled the cooperatives to manage their businesses successfully.

Towards the end of 1974, the *Badam Bagh* Training Centre together with its building had collapsed. A new Cooperative Department was set up on October 24, 1974, a cooperative law for the first time was prepared and the Department prepared plans for expansion and extension of cooperatives. Accordingly, 135 new cooperatives were established, of which 124 primary agricultural cooperatives, 4 consumer cooperatives and 6 industrial cooperatives and 1 bee keeping cooperative. They were spread over 11 provinces of Afghanistan. These cooperatives seem to have operated successfully. The impact was felt across many segments of the rural society, spreading member education, arranging for meeting among the members and capacity building of the Boards of Directors, sponsoring active members for overseas training course and conducting technical training courses, seminars and workshops for members of the cooperatives. Significantly, as available evidence suggests, cooperatives used to arrange for provision of credit at low interest rate with liberal terms for repayment.

The cooperatives facilitated marketing of agricultural produces by establishing forward linkages with local as well as overseas markets. Interestingly, the farmer members used to receive their payments through the banking system which ensured transparency in transaction and building of trust on the cooperatives. With the technical support of FAO, several staff of cooperatives were sponsored to foreign countries for higher studies and technical training programs for capacity building to manage the cooperatives. On the cooperative governance side, all documents of cooperatives were maintained safely; they were secured and registered. The cooperatives used to publish annual balance sheets with declaration of benefits or losses. So far this was the golden phase in the growth and development of cooperatives in Afghanistan.

Section 4.5: Cooperative Development during the Soviet Regime

The Soviets invaded the country in 1979 and took control. Although the history of cooperative movement in Afghanistan during this period was influenced significantly by the policy and outlook of the external regime that started ruling the country, the communist regime nevertheless took decision for establishment of more cooperatives as matter of policy, regardless of the need or demand from the farmers. More than 1270 new cooperatives were established in one year. However, after establishment of the new Soviet regime, the technical staff of cooperatives and many other citizens of Afghanistan migrated to the neighbouring countries for fear of safety and uncertainty resulting in collapse of approximately 560 cooperatives, including the newly established ones. Fortunately, it is at this time the

FAO formulated and started a new project, named as PATCA³⁸ with the principal objective of creating facilities for technical training of government staff as well as for members of the agricultural cooperatives (farmers) under which about 500 new cooperatives were either rehabilitated or newly established.

During April 1981, a new cooperative law was passed. It contained six Chapters and 31 Articles. The law provided for some positive measures, one of them being connecting Afghan cooperatives with International Cooperative Alliance (ICA), creating a National Union of Cooperatives so that this National Union could connect themselves with the ICA and obtain their membership. Machineries (tools and equipment) were provided by the government for distribution among agricultural cooperatives. The cooperatives were permitted to set up supermarkets in different parts of the Kabul city for marketing agricultural produce of their members and ensure fair prices to them.

Some agricultural cooperatives signed agreements with some government organizations for supply of agricultural produce at fair prices. These cooperatives used to receive technical inputs from concerned Departments of government. The cooperatives providing services to their members were eligible for a lower tax rate compared to private business, as also all members of cooperatives were exempted from paying taxes for first six years. The government also supported the cooperatives by constructing cooperative office building, storage space, supplying machineries for agricultural production, processing and setting up of extra cooperative farms.

For the above purpose, more than 30 cooperatives were selected on sample basis from different provinces of Kabul, Parwan, Samangan, Balkh, Jawzjan, Faryab, Kunduz, Farah, Herat, Nymroze and Nangarhar. Each sample cooperative had identical building pattern wherein one room was earmarked for office purpose. However, the tragedy was that all buildings were captured by the powerful people in the locality for their individual uses.

Section 4.6: Cooperatives during *Mujahidin* and *Taliban* Regimes

After accession of power by the *Mujahidin* from the Communist rule in 1991, only some 5-6 new cooperatives were established, which were used primarily for creating awareness among the villages. However, during the *Mujahidin* regime, the cooperative leaders were empowered with guns in their bid to provide them security, and the cooperative leaders subsequently provided guns to their members. At the organizational level, the position of cooperative manager at DACD was upgraded to that of Director. The ruling dispensation somehow did not cause any material damage to the cooperatives.

³⁸ It is an abbreviation of French terms.

In 1995 when the *Taliban* regime took control of the nation and accessed power from the *Mujahidin*, all infrastructure including the building and other assets of the cooperatives were destroyed. More than 80% of the active and functional cooperatives had closed. Majority of the technical personnel and staff of the cooperatives migrated to the neighboring countries for fear of security and safety. During such political chaos and uncertainty, only a limited number of cooperatives survived with support from specific organization like Ariana that continued working with the cooperatives, while majority of the remaining cooperatives perished.

Section 4.7: Cooperative Development since Formation of Transition Government

When the Afghan Islamic Transition Government came into power, they initiated activities with a focus to encourage the Cooperative Movement, establish new cooperatives, rehabilitate older cooperatives, but due to absence of an organized plan between the foreign donors (for humanitarian and development aid) and stakeholders, the cooperatives did not fulfil their stated goals and objectives. In spite of the emphasis of the Transition Government to create new cooperatives, while serving the interests of the external donors to channelize foreign aid through these institutions, appeared to be necessary to pump in resources in the hands of the war-ravaged people, it inflicted a considerable blow to the structure and governance of cooperative institutions. The psyche of cooperative institutions of Afghanistan had expected that the largesse would be continued, but the reality is that they couldn't be expected in perpetuity. This is a great dilemma that the agricultural cooperatives are now confronted with.

In 2008, a draft Cooperative Law was prepared and submitted to the related Ministry for comments and suggestions and thereafter it was approved and passed. Somehow, even the 2008 Cooperative Law could not create an enabling environment for a healthy growth of agricultural cooperatives in the country. The law suffered from limitations as it could not guarantee welfare and economic benefits to the farmer members while it focused on numeric expansions of cooperatives without safeguarding the interests of the farmers. Somehow, cooperatives' interests in the farmers' welfare, an important tenet of the Law, was not ensured. As a result, sustainability of the cooperatives could not be guaranteed. The provision for tax, for example, became a deterrent.

In order to assess the status of the cooperatives, an evaluation is being carried by DACD Kabul with assistance from provincial Department of Cooperatives to find out how many of the registered cooperatives were "actually active in business" and how many were in existence only on "record". Criteria used were (i) single purpose or multiple purpose cooperatives, and (ii) whether they have a business plan or a service oriented business plan. Very few of the existing cooperatives fulfilled this criterion. Licenses of all cooperatives were cancelled. They were advised to re-register as per the new

guidelines prepared by DACD (refer Box 4.1 and Box 4.2, for criteria). As per the latest information (as on August 21, 2017) made available by the Director (Registration), DACD, 75 new agricultural cooperatives have been established under the new guidelines. The process however is ongoing, and new cooperatives are getting registered with passage of time. The tenure of the new license is for 3 years; after that it has to be renewed.

As per the new guidelines, agricultural cooperatives can be established and registered for the broad purposes of Agriculture and Animal Husbandry. These two broad sectors have further been classified in respect of sub-sectoral activities. While (i) Agriculture includes Horticulture (fruit, vegetable, flower, ornamental bush), leguminous grain, cereal crops, industrial crops, medicinal plants, oilseed crops and nursery, (ii) Animal Husbandry includes livestock, dairy, poultry, fishery, beekeeping and sericulture.

The Central Statistical Organization (CSO), Government of Afghanistan in their annual publication provides information on number of cooperatives, no of members, share capital contribution, total products sold and land area of the members shown in cooperative record. It may be mentioned that the data recorded through the CSO publication refer to total number of cooperatives irrespective of their registration status under the Draft Afghan Agriculture Cooperative Law of 2013.

There are 1972 cooperatives in Afghanistan in 2016-17. During the period from 2008-09 to 2016-17, no clear pattern in the number of cooperatives could be observed, though it is found that during the same period, number of cooperatives had increased consistently, and after that, it has been showing a steady decline. The agricultural cooperatives have been mapped over the seven AEZs of Afghanistan and an indicator showing number of agriculture cooperatives per 100 thousand populations has been worked out, to show the intensity of coverage of cooperatives over space (Figure 4.1). It is found that AEZs of 1 & 5 have the highest presence of agriculture cooperatives at 13 for every 100, 000 populations. However, AEZ 6 has the lowest presence of agriculture cooperative with only 2 agricultural cooperatives per 100, 000 populations.

Box 4.1: Documents required for establishment of Primary Agricultural Cooperative at the village level

- *At least 11 members will have to voluntarily come together for establishment of one single purpose cooperative.*
- *They will send a request letter to the provincial DACD office about their intent.*
- *They will have to obtain and receive technical information on cooperative from provincial DACD office.*
- *They will prepare bye laws as per proposed amendment of cooperative law, August 2013*
- *They will have to prepare a business plan.*
- *They will contribute 51% of business plan out of share capital to be certified by bank.*

- *They will submit tax clearance paper from the concerned Department.*
- *They will submit other relevant documents as required by the DACD provincial office.*
- *They will submit a letter of application for registration and obtain license for starting activities.*

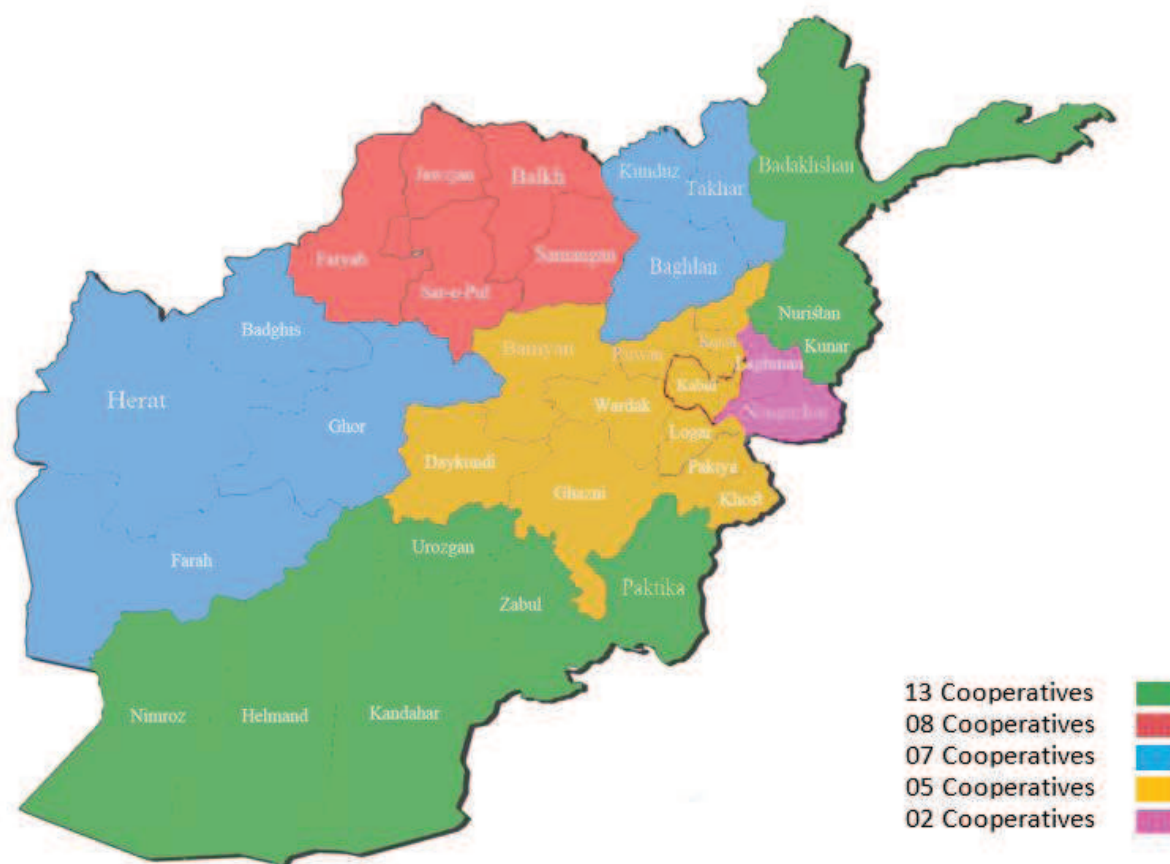
Source: Draft Afghan Agriculture Cooperative Law, 2013

Box 4.2: Documents required from Cooperatives' Provincial Office for registration at DACD, Kabul

- *copies of official application from founder promoters.*
- *copies of bye law endorsed by the promoters.*
- *copies of business plan.*
- *copies of Minutes of Meeting approved and signed by founder promoters.*
- *copies of activities report endorsed by interim Board of Cooperative.*
- *copies of identification of each member of cooperative with information on agricultural land and their contribution to share capital (amount of money).*
- *3 copies of guarantee letter from bank about cooperative share capital investment at 51 % of business plan.*
- *3 copies of complete information about identification of Board of Directors.*
- *3 copies of survey form specifying location of cooperative office.*

Source: Draft Afghan Agriculture Cooperative Law, 2013

While there are no visible economic events in the country that could impact cooperatives to close down following the year 2013-14, what could be inferred is that the draft Afghan Agriculture Cooperative Law of 2013 which contained certain mandatory compliances like 51% contribution of the members in share capital, approval of business plans and other requirements, many of the cooperatives might have closed down. On specific enquiry to explain the event, no clarity could be obtained from the DACD, the nodal agency of the government to promote cooperative development.

Figure 4. 1: Number of Agriculture Cooperative / 100,000 Population

Source: Prepared by the author based on secondary data

The membership in the number of agricultural cooperatives has shown a decline over the years. From a level of 358 thousand cooperative members in 2007-08, their numbers reduced to 272 thousand in 2016-17, and as a consequence, the average member per cooperative also reduced from 193 to 138 (Table 4.1). It is important to note that there has been a correlation between number of cooperatives and total members, and given the changes in the draft Afghan Agriculture Cooperative Law, both has moved in an identical direction. This decline seems to mean consolidation following tightening of rules under the Law rather than progressive reduction in popularity of the cooperatives as a form of business.

Table 4. 1: Cooperatives and their members in recent years in Afghanistan

Year	No of Cooperatives	No of Members	Members per cooperative
2016-17	1972	272272	138
2015-16	2046	285048	139
2014-15	2420	324232	134
2013-14	2811	363153	129
2012-13	2655	354126	133
2011-12	2394	334972	140
2010-11	2990	465006	156
2009-10	2437	423006	174
2008-09	1860	358603	193

Source: Compiled from Afghanistan Statistical Yearbook 2016-17

The average share capita per member is about Afs 700 (Table 4.2). This low benchmark can probably be explained. While average land mentioned in the cooperative record is 407 ha per cooperative, average land per member is estimated at 2.97 Ha. The average value of 3 Ha of cultivated land is currently about 32 lac Afs, which is only a part of the land endowment that a typical member household would have. During field survey, this aspect was checked. The Chairman of the *Qura Baghi Robat* Cooperative (QBRC) in Parwan province indicated that the cooperative members might own 20 *jeribs* of land, but in cooperative record they would indicate only about 2 *jeribs*. The point that emerges is that the members' stake in the cooperative has been low, primarily because the cooperatives in its present form probably have not been able to live up to their expectations.

The Afghanistan Statistical Yearbook 2016-17 (www.cso.gov.af) has also provided province wise information on number of cooperatives, members, and share capital per member in the capital of cooperatives. This information's have been analyzed to bring out the salient features as under:

- Average share per cooperative in the capital of cooperatives ranges between Afs 5,530 to Afs 261,720 across provinces, as estimated for a total number of 1972 cooperatives (Table 4.3).
- The average share per member in the capital of cooperatives is only Afs 700 while per cooperative share stands at Afs 96,110.

Average share per member in the capital of cooperatives ranges from a high of Afs 5,250 to a low amount of only Afs 10. The distribution of the same among the provinces is presented in Table 4.4. As indicated in the same table, more than 56% of the provinces contributed less than Afs 100,000 per cooperative while about 69% of provinces shared below Afs 1000 per member as capital of cooperatives. 54% of cooperatives having 36% of members have below Afs 100,000 as their share capital contribution. 84% of total members in more than 78% of total cooperatives have only less than

Afs 1000 as share capital. This implies that most of the members have contributed small share capital and many of the cooperatives are weak in total capital mobilization from its members. Further, this can be concluded that the scale of business operations in most of the cooperatives is low with a relatively large coverage of membership of small farmers in the perspective of Afghanistan. However, large sized cooperatives seem to have contributed relatively more share capital per member probably being induced by the beneficial effects of scale.

Table 4. 2: Average share capital per member, per cooperative and average land per member

Year	Share capital/Member (Afs)	Share Capita/Coop (Afs)	Land/Cooperative (Ha)
2016-17	696	96,114	407
2015-16	642	89,462	408
2014-15	603	80,857	387
2013-14	590	76,207	355
2012-13	576	76,852	359
2011-12	555	77,677	377
2010-11	441	68,532	375
2009-10	454	78,786	408
2008-09	426	82,102	423

Source: Compiled from Afghanistan Statistical Yearbook 2016-17

Table 4. 3: Distribution of provinces, members and cooperatives by Share capita ('000 Afs)

Range of Coop Share Capital (in '000 Afs)	No of Provinces	No. of Members	No. of Coops
5 – 49	9 (28.13%)	41,032 (15%)	509 (25.8%)
50 – 99	9 (28.13%)	57,197 (21%)	557 (28.2%)
100 – 199	7 (21.88%)	125,097 (46%)	677 (34%)
200 – 300	7 (21.88%)	48,946 (18%)	229 (12%)
Total	32	272,272	1,972

Source: Compiled from Afghanistan Statistical Yearbook 2016-17. Note: Nooristan and Paktika provinces do not have any cooperative

Table 4. 4: Distribution of average share capital per member of the cooperatives

Range of Member share capital (Afs)	No. of Provinces	No. of Members	No. of Coops
10 – 500	11 (34.38%)	117,842 (43.3%)	520 (26.4%)
501 – 999	11 (34.38%)	110,684 (40.7%)	1028 (52%)
1,000 – 2,000	6 (18.75%)	36,122 (13.3%)	240 (12.2)
2001 - 5,250	4 (12.5%)	7,624 (2.8%)	184 (9.3%)
Total	32	272,272	1,972

Source: Compiled from Afghanistan Statistical Yearbook 2016-17. Note: Nooristan and Paktika provinces do not have any Coop

Under the Draft Afghan Agriculture Cooperative Law 2013, the DACD has so far completed

registration of 75 agriculture cooperatives. A perusal at the list indicate that out of 75 agriculture cooperatives 25 are supported by donors. A distinction between cooperatives with and without donor support has been presented in Table 4.5. This indicates that the donor supported cooperatives have larger members (172 members) as compared to those cooperatives that have been registered without aid (49 members). However, the average share capital in the non-aided cooperative is three times higher (Afs 9240), as compared to aided cooperatives (Afs 3319). Average fixed capital per member in a non-aided cooperative is Afs 1, 05, 262 as compared to Afs 25,628 in a donor-aided cooperative. However, the potential work opportunity, as perceived by members in their response during a survey, is claimed to be higher among the aided cooperatives compared to the other group.

Section 4.8: Lessons for development of future strategy

Although the concept of cooperation in Afghanistan has strong indigenous historical roots, formal cooperatives are often nourished by external sources – a fact which is not consistent with the spirit of cooperation and its sustainability. It is therefore no wonder that the fate of cooperatives often in the past got intertwined with external support, growing only during periods of favorable policy support and never able to hold their fort against unfavorable swings in policy. So, it appears that if cooperatives in post-war Afghanistan are to blossom in a sustainable manner, they must strike roots at the long-standing indigenous traditions at grass root level, and mostly through their own efforts. As the preceding paragraphs suggest, for Afghan cooperatives to become sustainable and world class, they must be free from political intervention, and thrive on concerted efforts of central, provincial and local bodies, besides sound inter-Departmental coordination within each government, while being amply supported by professional management team, on the one hand, and by trained and empowered members and their Boards, on the other.

CHAPTER 5

Evolution of the Legal Framework for Afghan Cooperatives



Evolution of the Legal Framework for Afghan Cooperatives

Section 5.1: Introduction

Given the fact that a cooperative organization is a mix of both enterprise and association features unlike an investor-oriented firm (IOF), the International Labor Organization (ILO) has spelt out the guidelines for developing cooperative legislation in the member countries, which can maximize cooperative effectiveness through establishment of a suitable governance structure. In view of the fact that the current dissertation seeks to look for an appropriate governance structure for Afghan agricultural cooperatives, this chapter attempts to examine the provisions of the latest Draft Agricultural Cooperative Law of August, 2013 in the light of the ILO guidelines, while pointing out the striking deviations together with their implications for possible future reforms.

The present chapter runs through four sections. While the introductory section poses the main thrust of this chapter, the next section brings out the salient features of the ILO guidelines for cooperative legislation. Section 3 summarizes the provisions of the Draft Agricultural Cooperative Law, August 2013 for Afghanistan together with the reasons for switchover from the 2008 Act. The final section examines the Draft Law vis-à-vis the ILO guidelines and attempts to highlight the notable deviations of the Draft Law for possible future reforms.

Section 5.2: Salient Features of the ILO Guidelines for Cooperative Legislation

The third edition of ILO's Guidelines for Cooperative Legislation (Guidelines) starts with the motto that 'Cooperative enterprises build a better world, but cooperatives cannot - and must not - save the world' is used to highlight the spirit that 'cooperatives are a special type of private enterprise and neither they, nor cooperatives in the wider acceptance of the word, are a panacea for all the evils of this world'. This spirit is now universally accepted and recognized by the main international instruments concerning cooperatives – namely, the 1995 International Cooperative Alliance's (ICA) Statement on the Cooperative Identity, the 2001 United Nations Guidelines and the International Labor Organization's (ILO) Promotion of Cooperatives Recommendation, 2002.

As ILO Guidelines have pointed out, many national governments, regional and international, governmental and non-governmental organizations were for a long time 'reluctant to recognize cooperatives as a viable business model, worthy of being promoted on an equal footing with what continues to be portrayed as the most efficient type of enterprise, namely stock companies', the observed relative stability of cooperatives during the recent recession in capitalist economies seems to suggest

that cooperatives are no less efficient enterprises and that the criterion of IOF efficiency, which are often used to judge cooperatives, needs rethinking. As a result, cooperatives are being increasingly recognized as ‘a suitable form of performing in a changed business world in the future’. So, inclusion of the word “enterprise” the first part of the motto, which is in fact the slogan of the United Nations (UN) International Year of Cooperatives 2012, is in fact recognition of the dual character of cooperatives. They are defined as associations of persons who pursue their objectives through their own enterprise.

The second part of the motto seeks to relieve cooperatives of an ideological burden by answering questions like “Can co-ops save the world?” In this context, the ILO Guidelines have made it categorically clear that diversity being a prerequisite for sound economic and social development, cooperatives are one of many enterprise types. By virtue of the diverse objectives of those who control cooperatives, cooperatives are diverse too. This diversity is claimed by the Guidelines as a pre-condition of sustainability, which is now-a-days a universally accepted development paradigm.

Moreover, the ILO Guidelines have described cooperatives as “children of necessity” because cooperative members, who control their organization, pursue goals which IOFs don’t find profitable to follow and which governments too are either unable or unwilling to achieve. They may also be looked upon as “children of preference” because its potential members choose this specific and distinctive type of enterprise from possible alternative options.

This third edition of the Guidelines centers on ILO R. 193 as this ILO standard forms the nucleus of public international cooperative law. It reaffirms the importance of law as a necessary, albeit not a sufficient, means for the development of cooperatives. ILO has made it clear that these Guidelines are not a recipe to follow. While elaborating this framework for cooperative legislation, the ILO has “rejected the idea of presenting a model law as such laws are often simply transferred or copied without the legislator adapting their underlying legal concepts to the particularities of its jurisdiction. Such copies rarely become effective law. These Guidelines, on the other hand, are meant to do no more than incite the legislator to construct itself a cooperative law, based on internationally accepted standards” (ILO, 2012, p.5).

With the above-stated introductory remarks and clear caution against possible ‘uniformization’ and ‘companization’ of all forms of business organization, the ILO Guidelines provides an ABC of a cooperative law spelling out the specific elements which ought to be considered for inclusion in any cooperative legislation, the salient features of which are summarized in the paragraphs which follow.

It suggests the main contents of a cooperative legislation to cover the following aspects:

- 1 Preamble
- 2 General provisions
- 3 Formation and registration
- 4 Membership
- 5 Organs/bodies and management
- 6 Capital formation, accounts, surplus distribution and loss coverage
- 7 Audit
- 8 Dissolution
- 9 Simplified cooperative structures
- 10 Horizontal and vertical integration
- 11 Dispute settlement
- 12 Miscellaneous

1 Preamble:

To strengthen the foundations of genuine cooperatives, the Guidelines suggest the preamble to a cooperative legislation to signal the following matters:

- *“the role and the function of cooperatives in society in general and in the economy of the country in particular;*
- *the character of cooperatives as private and autonomous organizations having access to all lawful activities;*
- *the involvement of the government which will be limited to the registration, dissolution and promotion of cooperatives and to general normative control; and*
- *equal treatment of cooperatives and their members with regard to other business organizations, i.e., they will not be discriminated against, either negatively or positively...”* (ibid, p.64).

2 General provisions:

Under General Provisions, the Guidelines suggests inclusion of key legal terms used in the law, besides

asserting that “registration under the cooperative law does not exempt cooperatives from abiding by other legal rules of the legal order, especially not from those regulating their activity” (ibid, p.64).

For a clear understanding of what cooperatives are, the Guidelines suggest inclusion of the definition of cooperatives under ILO R.193, para 2 as “A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise” (ibid, p.65). It asserts that the definition which is applicable to primaries, secondary as well as higher-tier federations is necessary to differentiate cooperatives from capital-centered, non-profit, charity and from other possible forms of self-help organizations, as well as from other social enterprises.

ILO (2012) favors cooperative definition to be written into the law as this helps:

- “the government to carry out the normative functions of the state;
- to distinguish genuine cooperatives from false ones;
- to determine the obligations and rights of the members, as well as those of the organs/bodies of the cooperative;
- to specify the qualifications and duties of cooperative officers concerning capital management and serving the interests of the members according to the dual nature of cooperatives (associations and enterprises);
- to state minimum rules concerning accountancy and audit in order to further the efficient use of financial resources, the adequate recognition of human capacities, as well as ensuring member promotion;
- to resolve the conflicts that might arise between cooperative law and those other laws which, together with the cooperative law proper, constitute the cooperative law in the broad sense, for example tax laws, labor law, competition law, accounting standards etc.;
- to justify equal treatment of cooperatives, in the sense explained above;
- to facilitate the evaluation of the economic, social and societal impact of co-operatives; and
- to promote international cooperation” (see, ibid, p.66).

The ILO Guidelines also advise inclusion or at least reference to universally recognized Cooperative Principles in the Preamble or definition of cooperatives.

3 Formation of Cooperatives

Regarding formation of cooperatives, the Guidelines suggests quasi-automatic registration or registration after approval by a single public entity with restricted power of the name and other related information of any cooperative as justification of their status as a legal person in a public register, besides their protection by the state, thus prompting law to impose severe sanctions against any abuse of the name 'cooperative'. While registration ought to be done only following request from an elected representative of the nascent cooperative, its procedure must be speedy and neutral without hindering their formation. To rule out possible misuse of the process of registration, the Guidelines has listed the documents necessary for this purpose as the following:

- *“the minutes of the constitutive General assembly, with the signatures or finger prints of all founder members...*
- *a sample of the signatures of the persons with the right to represent the co-operative*
- *several copies of the bylaws/statutes with the signatures or the finger prints of all founder members*
- *the report on the results of an economic feasibility study concerning the planned activities of the cooperative...*
- *a list of the persons entitled to file the application for registration and to notify all subsequent changes to be made to the registry*
- *a document showing that an adequate portion of the total amount of the member shares has been paid up and stating the period of time within which the remainder must be paid” (ibid, p.69).*

To achieve the desired goals in registration of cooperatives, the Guidelines has uttered the following cautions:

- *“A receipt stating the deposit of the application for registration and listing the documents presented, duly signed and dated, will be given upon presentation of the documents;*
- *Registration will be concluded within a short time period. One certified copy of the bylaws/statutes, mentioning the number and date of registration will be given to the cooperative. It will be proof of the official recognition of the cooperative as a legal person;*
- *A refusal to register must be justified in writing and notified to the persons who requested registration;*
- *In the case of such a refusal, the founders may appeal before a court (to be specified) which*

should give a decision within a brief time period;

- *If within the required time limit, no refusal has been notified, or if the court has not given its decision, registration will be presumed...;*
- *Whichever its type, the registration should be published within a fixed and brief time period in the appropriate official, easily accessible media that are generally used by the authorities.; and*
- *The fees for the registration and publication must in no case be prohibitive” (Ibid, p.70).*

After registration, a cooperative becomes a legal person with rights and duties. By virtue of these rights, it can acquire property rights, own subsidiaries in another legal form than a cooperative, contract obligations and debts, develop economic activities and be party to law suits. While cooperatives can be executing agents of their members, the members are neither individually responsible for any acts performed in the name of the cooperative, nor are they liable beyond the amount of the subscribed shares for the debts of the cooperative, unless otherwise mentioned in the bylaws/statutes.

4 Membership

Cooperatives being member-centered organizations, the universally recognized definition allows for physical/natural, legal persons or both to be members of primary cooperatives. However, to counter the risk that the physical person members may be overruled by legal person members, the Guidelines assert that mixed membership is voluntary and can be avoided within the limits of the cooperative principles by physical person members.

On the issue of restriction on member age, the Guidelines stipulate that the minors must be prevented from being able to control the organization with an exception for school and student cooperatives. On the issue of minimum number of members in primary cooperatives, the Guidelines agree that a country may require different minimum numbers according to the type of cooperative or according to other specified criteria. For the maximum size of membership, it likes the matter to be decided by the members for decision. On admission of members, in spite of the open-door principle followed, the Guidelines highlight mutual acceptance by the members as a condition sine qua non for success of cooperatives.

As the policy of cooperatives in matters of capital distribution has an influence on the size and quality of membership, cooperative bylaws/statutes should foresee and annex the necessary clause. Given the associative character of cooperatives, decision on admission of new members must be invariably decided by the General assembly. The Guidelines assert the right of the members to resign or withdraw must be guaranteed by law. Furthermore, withdrawal may be restricted until a minimum period of

membership has expired, or subject to some appropriate conditions provided such conditions are not excessive. Generally, a resigning/withdrawing member has the right to have his shares reimbursed at nominal value. At most the cooperative can temporarily withhold the reimbursement if an immediate reimbursement seriously affects its finances.

Given the open-door principle, involuntary exclusion from a cooperative can take place only under exceptional circumstances, when the behavior of the concerned member is found to be seriously violating the bylaws/statutes or if such behavior is found detrimental to the interests of the cooperative. But in all such cases, the member concerned has the right to be heard of, to appeal before the General assembly, and to use the dispute settlement procedures provided for in the law/bylaws/statutes and, as a last resort, to appeal to a court of law.

Cooperative membership is linked to rights, which again are conditioned by the discharge of obligations. The Guidelines categorically assert that in no case should family ties, race, age, religion or any other affiliation of a member affect the independence and the equality of the cooperative members.

The personal obligations of a cooperative member involve committing themselves to:

- respecting the bylaws/statutes, the decisions taken by the General assembly, as well as the decisions taken by the management in line with the decisions of the General assembly;
- abstaining from any activity detrimental to the objective of their cooperative; and
- participation in the activities of the cooperative.

The financial obligations, on the other hand, involve the following:

- *each member must subscribe to and pay for the minimum number of shares fixed in the bylaws/statutes;*
- *each member is financially liable for the debts of the cooperative, where the minimum liability is the value of the subscribed shares;*
- *each member may have to purchase additional shares; and*
- *in order to improve the creditworthiness of cooperatives and in order to incite the members to actively contribute to their success, the law or the bylaws/statutes may impose an obligation on the the members to make supplementary payments (ibid, p.76).*

Rather than reasoning merely in terms of legal obligations, the Guidelines favors creating a climate of moral duty on the part of the members to work with their cooperative, while “it is up to the responsible persons within the cooperative to offer sufficiently attractive services to the members” (ibid, 77).

The Guidelines enlist the following personal rights of each member to:

- *ask for those services which form the objective of the cooperative;*
- *ask for education and training by the cooperative according to the bylaws/statutes or the decisions of the General assembly;*
- *use the installations and services of the cooperative;*
- *participate in the General assembly, propose a motion therein, and vote;*
- *elect or be elected for an office in the cooperative or in that of a higher level structure to which his cooperative is affiliated;*
- *obtain at all reasonable times from the elected responsible persons in the co-operative information on the situation of the cooperative;*
- *have the books and registers inspected by the supervisory council, if any;*
- *jointly (necessary number to be determined) the members can also convene a General assembly and/or have a question inscribed on the agenda of a General assembly; and*
- *ask for an (additional) audit (ibid, p.77).*

The members have at the same time the following financial rights to:

- receive a share of the surplus at economically reasonable intervals in the form of a patronage refund, paid pro rata of their transactions with the co-operative, and/or a limited interest on the paid-up shares;
- ask, when terminating their membership, that the paid-up shares be reimbursed at nominal value. Losses or devaluations may be deducted from this amount...;
- receive, in the case of liquidation, a share of the remaining sum, if any, except of those funds which were declared indivisible by the law or the by-laws/statutes and as required by strict cooperative principles...” (ibid, p.78)

The Guidelines recognize the complexity of employer/employee relationship in cooperatives when the employees happen to be members of the cooperative. In consumer cooperatives, for example, the voting rights of the employee-members must be restricted in cases relating to work conditions. In worker cooperatives, the object of the labor contract being “cooperativized”, becomes identical to the object of the cooperative.

(i) **Organs/Bodies & Management**

The Guidelines reiterate the point that cooperatives having dual character, the law must cater to the two elements within the definition of cooperatives - namely, the association element and the enterprise element. So, it argues that the matters pertaining to the associative character of the cooperative must reflect the will of all members regardless of their financial contribution, whereas matters pertaining to the enterprise element ought to be dealt with by a Board of Directors which will supervise the day-to-day running of the enterprise by a professional manager. “This demarcation of powers, according to the Guidelines, is necessary to avoid inefficiencies that arise where a non-informed membership retains too much of the management powersand where the membership loses its effective control because the management uses its information without properly consulting with the membership” (ibid, p.79). However, this dual system, under no circumstances, be allowed to replace the internal control mechanisms of the Board like internal audit; nor to replace the obligatory external audit of the cooperative.

The General assembly of a cooperative – both ordinary and the extraordinary, is composed exclusively of the members. It is the supreme decision-taking organ/body. Third parties, like investors, may be allowed to participate in the general assemblies, but they can’t have voting rights. While an ordinary General assembly is generally convened once a year, an extraordinary one may be called at the behest of an appropriate group of members as per the provisions of the law or the bylaws/statutes.

Suitable provisions for regional assemblies and/or assemblies by sections may be made in cases of large territorial coverage, difficulty in getting the necessary quorum, too cumbersome General assembly proceedings, or diverse interests of a multipurpose cooperative.

Given the dual character of cooperatives as associations and enterprises, the Board/management must be given necessary freedom for efficient management of the enterprise, whereas all decisions concerning the cooperative as an association must be taken only by the General assembly. Given this basic distinction, no powers can be transferred to any other body or person, not even by a unanimous decision of all the members of the General assembly. The most prominent among these powers is the right and obligation to adopt and modify the bylaws/statutes and the universally recognized cooperative values and principles.

Although adoption of model bylaws/statutes makes registration easier, the Guidelines is not in favor of its adoption to be made compulsory, as elaboration of these bylaws/statutes by potential members is a unique learning experience. It has stipulated the minimum obligatory content of the bylaws as the following:

- the name and the trade name of the cooperative, which may be freely chosen as long as there is no confusion.;
- the locality of the head office, if any, its postal address and, possibly, the conditions for its transfer to another locality;
- the definition of the objectives of the cooperative, including ...whether the cooperative is a single-purpose or a multi-purpose cooperative;
- the conditions and procedures for admission, resignation/withdrawal, exclusion and suspension of members....as also its being a primary, a secondary or a cooperative of an even higher level;
- the value of, as well as the minimum and maximum number of, the shares to be subscribed by each member...;
- the procedure and conditions for the subscription and payment of the shares....;
- the type of financial liability of the members for the debts of the cooperative;
- the administration of the cooperative registers and the documents to be kept;
- the conditions and procedures for convening and holding general assemblies;
- the limited size of the Board, the eligibility and qualification criteria concerning the various offices, the duration of the mandates and the reimbursement of their expenses and the expenditures of the manager, .. the rights and obligations of these officers, the mode of their decision-taking;
- the conditions and procedures for convening the Board of Directors and the supervisory council, if any (quorum, voting etc.);
- financing: capital formation, constitution of legal reserves and funds;
- surplus distribution and loss coverage;
- the distribution of the capital in case of termination of membership or liquidation of the cooperative;
- definition of the financial year;
- auditing (cooperative-specific financial, management and social audit and advice, possibly also societal audit), qualification of auditors;
- conditions and procedures for voluntary dissolution;
- dispute settlement procedures;

- specification of any other legal matter; and
- the procedure for modifying the bylaws/statutes (ibid, pp.82-83).

In spite of not making them compulsory, the bylaws/statutes may also include rules on duration of the cooperative, its geographical area of activity, its affiliation to secondary or higher-tier cooperatives, the nomination of a supervisory council, the nature and volume of transactions with non-member users, the remuneration of office holders, the number of additional or supplementary shares per member together with the conditions of their subscription and payment, the acceptance of non-member investments and the rights attached thereto, details about formation of regional assemblies and/or assemblies by sections etc., voting by proxy, establishment of education and other statutory funds, establishment of commissions/committees, their tasks, term, member qualifications, and any other matter within the autonomy of cooperatives.

Besides drafting and modifying the bylaws/statutes, the General assembly has power to decide on the keeping of minutes of its meetings, the distribution of powers between the different organs/bodies, election and dismissal of the members of the supervisory council and the Board of Directors, the surplus distribution and loss coverage, the amalgamation, scission, conversion of the cooperative into another legal entity or dissolution of the cooperative, the possible limitation of loans, deposits or investments, the nomination of auditors, their duration and remuneration, the examination of the auditor's report, as well as of the annual report, giving or refusing the discharge of board members, adoption of the annual budget, the final decision on admission, expulsion or suspension of members, education and training of members and employees, extension of the duration of the cooperative, whether or not the Board of Directors may appoint a professional manager, the possible creation of committees with specific tasks, and the duration of their mandate.

Provision must be made in law/bylaw/statutes for cases where the General assembly repeatedly fails to gather the required quorum (the minimum number of members who must be present or represented for the General assembly to validly sit, deliberate and vote). As a rule, a second meeting may be called within a short period of time and with the same agenda, which may decide regardless of the number of members present.

Regarding voting in primary cooperatives, the Guidelines make the following stipulations:

- “..The basic rule on voting is “one member/one vote”. This also applies to members being legal persons.
- Exceptionally, (a limited number of) plural voting rights may be granted through the

bylaws/statutes. ...In no case, however, may plural voting rights be granted on the basis of the amount of financial contributions by a member...

- In secondary and higher-level cooperative organizations, a system of plural voting rights may be applied without the above mentioned restrictions...
- The law must also regulate the criteria for granting voting rights to delegates, i.e. members elected by regional or sectional assemblies, if any, to the assembly of delegates.
- Should non-members or non-user members, mainly investors, have voting rights at all, then these must be regulated in such a way as to ensure that they cannot outweigh regular members...
- For the above-mentioned reasons, the voting rights of member employees will also have to be restricted to exclude them from voting on issues related to their employment.
- If voting by proxy is to be allowed, the proxy must be a member of the cooperative and should not represent more than two or three members, himself included.
- At least important decisions should be taken by ballot in order to limit the influence of certain members, mainly the president of the General assembly...
- Voting by mail, via the internet or any other technical means, might be a way to involve the greatest possible number of members in the decision-making process whenever the physical presence of the members is not necessary or possible and the right to participate is not limited.
- Generally, decisions may be taken by simple majority if the required quorum of members is present or represented. Decisions concerning the associative character of cooperatives.... must be taken by a qualified majority, generally at least a two-thirds majority (ibid, pp.85-86).

The Board of Directors, as the executive organ of the cooperative is supposed to function as per the precise legal rules. The law must make provisions relating to the Board of Directors regarding their eligibility criteria (irrespective of whether or not all of them must be members of the cooperative), incompatibilities (whether economic, personal, political or of other nature) ³⁹, the duration of the mandate and the possibility to be re-elected, the quorum and the mode of voting, the technical as well as personal qualifications of the members of the Board of Directors (independently of whether the cooperative has a professional manager or not), liability of the board members, capability to ensure that where non-members or non-user members, mainly investors, have a right to sit on the Board of

³⁹ For example, members of the same family must not sit on the supervisory council and/or the Board of Directors.

Directors, they are neither able to take or block decisions on their own.

In fact, the powers/obligations of the Board of Directors covers, by default, all matters which do not explicitly fall within the jurisdiction of the General assembly. Such powers include representing the cooperative in all acts of civil life and to administer and manage the cooperative, keeping the registers, books and the minutes of its own meetings, ensuring that the accounts and the balance sheet are drawn up according to the rules in force, verifying that the audit is conducted regularly and within the prescribed time limits before placing the same before the General assembly, facilitating the work of the auditors, convening the ordinary and extraordinary general assemblies and preparing their agenda, preparing the management report and the annual budget, admitting, excluding or suspending members provisionally, co-opting in case of a vacancy in board membership, facilitating exercise of the rights and obligations of the members, nominating a manager or director, if necessary, and ensuring that the nominated person is carrying out the assigned duties correctly, filing, if necessary, an application for the opening of bankruptcy procedures, making certain that the cooperative functioning is transparent by adopting internal regulations, assuming several and joint responsibility/liability in case of wrongdoings and finally, taking on any other right or obligation, as assigned by the General assembly or as per the bylaws/statutes.

Cooperative law may provide voluntary establishment of a supervisory council, this supervisory council exclusively composed of members to carry out control function in the interest of the members. However, the Guidelines propose several regulations on this supervisory council like the eligibility criteria and the prohibition to sit at the same time on the Board of Directors or of several members of the same family in one or more organs/bodies of the organization, specification of the qualifications of the members of the supervisory council (e.g., having the necessary time and skills), the duration of the mandate, the quorum and the mode of voting and the financial liability.

The principal task of the supervisory council is to control the activities of the Board of Directors, of the management, and those of any commission, as it has access to all information at all times. It can also play important special functions, when the Board or the General assembly fails to perform certain scheduled functions. However, since it is answerable to the General assembly, it can take orders only from that organ.

(ii) Capital Formation & Distribution of Assets

On capital formation the Guidelines have explored alternative mechanisms to raise the inherently weak capital base of cooperatives such that can ‘withstand the harsh winds of national, regional, international and indeed global competition’ without endangering their financial independence, knowing fully well

that cooperative autonomy flows mainly from a system of carefully balanced internal and external financing, the latter usually through non-member business.

The most prominent source among internal financial resources for a cooperative is member shares, though these don't constitute a gainful investment. In primary cooperatives the amount of capital held by one member is by organizational logic limited so that the principle of equality among the members is not endangered. Moreover, cooperative shares are nominative, indivisible, non-transferable, not attachable and non-negotiable. So, to rebalance the relationship between the overall economic situation and the nominal value of the shares, cooperatives are required to revalue their shares under the strict supervision of competent authorities, which lay down the criteria for revaluation.

While issuing of additional member shares is an alternative way to improve the internal financing and to increase the creditworthiness of cooperatives, the Guidelines suggest that it must be conceived in such a way as to not entail an additional financial liability, as to grant the right to fixed interest payments, as to be reimbursable upon request, and/or as to grant a right of participation in the reserves upon withdrawal from membership, even where the reserves are otherwise indivisible.

Another way to improve cooperative creditworthiness is to fix a minimum amount of share capital below it can't fall. It means that either a withdrawing member is not immediately reimbursed his share, or the remaining members are obliged to contribute to the recapitalization by making supplementary payments. This method of capitalization however brings cooperatives closer to the financial structure of capitalist enterprises.

Constituting a reserve fund is a genuinely cooperative way of overcoming at least partly and over time the inherent financing weakness. This locked-in capital cushions against lack of liquidity and against loss of value of the obligatory shares, besides protecting third party interests, assuring minimum stability and limiting the risk of voluntary liquidation driven by speculation. It also constitutes an inter-generational link, thus contributing to sustainability. It comes from transferring the totality of the profit gained on transactions with non-member users, or transferring a minimum percentage of the surplus gained on transactions with the members, and transferring income from activities not related to the objective of the co-operative, such as the sale of fixed assets. Cooperative law also encourages establishment of education, training, social or any other funds on a compulsory basis. Cooperative groups

Some cooperatives are also found experimenting successfully with setting up so-called cooperative groups, i.e. daughter capitalistic companies which can access the financial market. This may be looked upon as yet another way to cope with increased capitalization requirements, especially for high value-

adding activities.

External financial resources for cooperatives may come from debentures and negotiable subordinated bonds, provided some rather technical pre-cautions are taken and the amount of external investment does not create a factual dependence of the cooperative on that capital, so that these do not influence the members' autonomy since no voting and/or participatory rights are attached to them. Yet another way of attracting external financing is the issuing of transferable investment certificates for members (internal) and non-members along with the right to participate in the distribution of profits and surplus and in the distribution of the assets in case of liquidation. Here the views of the Guidelines are absolutely clear. If these certificates do not grant any decision-making power, they might represent a still acceptable case of deviation from cooperative principles. Whenever, however, the issued certificates grant voting rights, even to a limited extent, member control is at risk.

Ideally, cooperative members are supposed to be the sole “investors” and users as per the cooperative principle of identity. Non-user members and non-member users are therefore “deviations” from the identity principle. Admission of investment members and non-member investors is thus a further step away from this identity principle. If cooperative shares are traded at the stock exchange and members' shares have a symbolic value only, capital holders become anonymous and the (capital) structure of the cooperatives may no longer be distinguished from that of stock companies. The Guidelines look upon these developments as promotion of the members at risk.

Though transactions with non-members can be considered as external financing, they may jeopardize the autonomy and independence of the cooperative. It is important to avoid a situation where non-member users get into a monopolistic or monopsony's position vis-à-vis the cooperative. The volume of transactions with non-members must therefore be limited – for example, by fixing a percentage of the total turnover, above which no transactions can be made with non-member users. For the purpose of taxation, distribution of surplus and supplying the legal reserve fund, bookkeeping must maintain distinction between transactions made with members and those made with non-member users.

Cooperatives are required by definition to calculate prices for member transactions near costs. A margin may be included to cover market related risks. If the balance sheet shows a surplus. It is paid to the members in form of patronage refunds calculated pro rata of the member transactions and referred as a deferred price adjustment with the cooperative, which is treated as a cost factor for purpose of taxation a cost factor.

The ILO Guidelines stipulate distribution of cooperative surplus in the following manner:

- *“transfer to the legal reserve fund;*

- *transfer to the statutory funds, if any;*
- *limited interest payments on the paid-up shares at a rate not higher than that paid by commercial banks for certain kinds of deposits and on investments, if any;*
- *patronage refunds to the members calculated pro rata of their transactions with the cooperative; and possibly*
- *premium payments to employees” (ibid, p.94).*

In order to avoid member speculation, cooperative shares are generally reimbursed at their nominal value in case of member resignation/withdrawal or exclusion. Only when the cooperative’s financial condition is threatened by such withdrawal, immediate reimbursement may be withheld, but only for a reasonable period of time. The same reimbursement rule applies in case of liquidation, except that the remaining amount after liquidation is transferred to the cooperative movement, to a charity or public interest organization or, distributed among the members according to some pre-specified method, where seniority of membership is considered as an additional criterion.

7 Audit

For sound development of cooperatives, implementation of a system of internal and external, timely, regular and co-operative specific audit of the financial, management, social and societal standing of the cooperatives by qualified and independent auditors, combined with advice on how to improve management and administration, is a must. The purpose of this audit is not merely a periodical check of conformity to the rules of the game, but also a control of whether the legal person status of the cooperative continues to be justified, besides helping to monitor whether the interests of third parties, managers and members are being respected. The internal audit is required to be carried out on an on-going basis by a group of members, while the external audit is supposed to be carried out by a higher-level cooperative organization or by private, preferably chartered, auditors. As the ILO Guidelines stipulate, ‘in no case must an administrative unit in charge of the promotion or the registration of cooperatives audit cooperatives’. If it is independent of government interference, a public authority might exercise the power to audit permanently. The Guidelines have gone to the extent of creating an audit fund for establishment of an effective, impartial audit system, staffed with qualified cooperative auditors, whose services must be accessed by all cooperatives as an obligation.

Given that the objectives of cooperators are different from those of IOFs, cooperative audit of a cooperative can’t be made ex post facto only on the basis of accountancy documents. They must verify whether the overall objectives of cooperative formation are reached or at least furthered. Management

audit needs to ensure that a social balance is achieved alongside the financial or economic one. For this purpose, the external auditor needs to have access to all material (including findings of the internal auditors), premises and persons able to inform him about the operations of the cooperative.

The auditors should not limit their activity to that of an ex post control, but they should also give advice on how to improve the management and administration of the cooperative. The potential conflict between the monitoring and the promotional role has not led to significant problems in countries where such audit has been performed for years.

Routinely, the auditor's report is to be submitted to the Board of Directors and to the supervisory council, if any. If the Board of Directors or the supervisory council fails to convene the General assembly or sufficiently explain the contents of the auditor's report, the auditors would have the right to speak at the General assembly.

8 *Dissolution*

On dissolution, the principle of cooperative autonomy allows members to dissolve their cooperative without any restriction subject to preservation of interests of third parties. So, the Guidelines asserts that cooperative law must explicitly lay down the steps to be followed, and define quorum and the majority required for such a decision. However, as per the freedom of association principle, members opposed to the dissolution would have the right to resign.

Given that there are two types of amalgamation – first, when one or several cooperatives are absorbed by another; and two, when a new cooperative is born by merging two or more cooperatives and demanding adoption of new bylaws/statutes, in view of observed undesirable future consequences, the Guidelines advise cooperatives to carefully consider such a decision before deciding. Whenever a cooperative decides to split into two or more cooperatives, members, assets, debts and reserve funds need to be split. On the issue of conversion into another form of business, only cooperatives having a divisible legal reserve fund may carry the reserve fund subject to the legal provisions of the previous business. But where the legal reserve fund is indivisible, the members have the possibility of dissolving their cooperative and constituting a new organization. The reserve fund will not then form part of the capital of the new organization unless the reserve fund is declared divisible by the General assembly when deciding the conversion.

Dissolution with liquidation, too, may be freely decided by the members, though a special quorum and a qualified majority are required in view of the importance of the decision. Dissolution may also be decided at the behest of an authority ex officio or upon request by an interested person, when the cooperative has repeatedly violated laws, regulations and/or its own bylaws/statutes. When the General

assembly fails to decide on a legitimate dissolution⁴⁰, decision of dissolution may also be taken by an external authority. The Guidelines call for regulation of the liquidation procedure, from its official beginning, the nomination of the liquidators, the establishment of the opening and closing balances, the transactions with the creditors, the distribution of assets and liabilities, the time period for the liquidation, etc. to the publication of the deletion of the cooperative from the register. Funds remaining after liquidation should in principle be transferred to a cooperative or charitable organization or to a public institution to prevent speculative behavior, especially when transfers to the reserve fund were not taxed earlier.

9 Simplified Cooperative Structures

The ILO Guidelines highlight the need for simplified cooperative structure in order to facilitate rapid development of cooperatives as part of public policy. It points out that many legislations in the past provided for provisional registration of mainly “pre-cooperatives” when they have light structure and are exempted from a number of constraints. However, as experience shows that they have not evolved into autonomous cooperatives. So, the Guidelines favor, in a simplified procedure, recognizing informal groups, “taking into account their reduced (membership) size, turnover, (share) capital, degree of inter-relatedness with third parties etc., which might require less strict rules on accountancy, audit and internal administration (number of organs/bodies, number of members of the organs/bodies, documents to be kept etc.). Such structures might not need, for example, a supervisory council, a full-time manager, an elaborate accounting system or a chartered accountant as an auditor” (ibid, p99). Thus, the Guidelines seem to have argued in favor of expanding the domain of cooperative to accommodate the vibrant self-help groups.

10 Horizontal & Vertical Integration

The ILO Guidelines are emphatic on the point that the freedom of association includes the right of cooperatives to integrate horizontally and vertically to form unions, federations and/or confederations, often called apex organizations, which can even bring together multi-sectoral units. The rights and obligations of the higher-level cooperative organizations are heightened by the Guidelines to include:

⁴⁰ A legitimate case for dissolution may arise when the duration of the cooperative, laid down in the bylaws/statutes, comes to term, or the objective of the cooperative has been attained or is impossible to attain, or the conditions for registering the cooperative are no longer valid, or the cooperative is bankrupt, or the cooperative isn't having any activity for a given period of time, or there is any other reason as per law.

- *“representation of the members at national, regional and international level;*
- *promotion, education and training;*
- *advice, financial, insurance and economic services (marketing, supplies, exports, imports, etc.);*
- *development of inter-cooperative relations;*
- *research and development;*
- *arbitration;*
- *control and audit; and finally*
- *dissemination of the cooperative law” (ibid, p.100).*

11 Dispute Settlement

Considering the importance of good personal relations for the success of cooperatives, most cooperatives stipulate either by law or through the bylaws/statutes an obligation to resort to out-of-court procedures like reconciliation, mediation and/or general or special arbitration procedures before submitting a dispute within the cooperative system to a court of law. Such traditional modes of dispute settlement are preferred because ‘they are cheaper, more expedient and also because they allow for the consideration of local human and social issues’, though in no case access to court as the last resort is prohibited.

Section 5.3: Broad Features of Afghan Draft Agricultural Cooperative Law

Against the background of a comprehensive cooperative law as proposed in ILO Guidelines, this section intends to highlight the broad features of this Draft Law, which are being informally implemented in Afghanistan, with a view to bringing out a comparative perspective in the last section of this chapter. It may be noted this Draft Law of 2013 is prepared against the original 2008 Act in view of certain observed limitations of the latter, which the current draft seeks to remove.

The main reasons cited as limitations of the 2008 Act are as follows. First, the 2008 Act is alleged to be generic in nature having little clarification about the various terms used and detailed specification about the processes to be followed. As a result, though as many as 2800 agricultural cooperatives were registered, most of them remained inactive partly because of their failure to observe the processes, which invited hefty penalties. Second, the necessary thrust on single commodity cooperatives was missing, as a result of which dilution of interests and lack of focus began to be observed in member participation. Third, the necessary emphasis on the virtues self-help and self-sufficiency in consonance with the universally accepted cooperative principles was missing to reverse the earlier trend of creation

of cooperatives from above with strong dependency syndromes. However, as it will be clear from further analysis of the Draft Law in the rest of this chapter, many ills continued to remain, which will be taken up for comprehensive discussion in Chapter 7.

The subject of agricultural cooperation (whether primary, secondary or their union) and matters related to their establishment, registration, organization, management and development to ensure fulfillment of their material and social goals derive their support and rationale from Article 14 of the Constitution of Afghanistan. It runs through 41 articles and divided into 8 chapters: (1) General Provisions, (2) Conditions for Establishment & Registration of Agricultural Cooperatives, (3) Membership, Registration & Exclusion from Agricultural Cooperatives, (4) Organizational Structure & Management of Agricultural Cooperatives, (5) Financial & Accounting Affairs of Agricultural Cooperatives, (6) Rights & Obligations of Agricultural Cooperative Members, (7) Joining, Amalgamation, Division & Liquidation of Agricultural Cooperatives, and (8) Miscellaneous Provisions.

The chapter on General Provisions covers Rationale, Objectives, Definitions, Principles of Cooperative, Structures of Agricultural Cooperatives, and Duties and Responsibilities of the Administration (Articles 1-6). Besides spelling out the rationale, this chapter sets up the objectives of agricultural cooperatives as (1) Establishment, organization and registration of cooperatives, (2) Supporting them as a part of the private sector towards the growth and development of the agricultural sector, (3) Organizing farmers towards utilizing collective tools and capabilities, (4) Motivating farmers towards practicing effective and profitable farming methods, (5) Encouraging the habit of saving and business development among farmers, (6) Ensuring coordination and solidarity between cooperatives, (7) Improving the economic and social status of farmers, and (8) Assuring sustainable growth of agricultural cooperatives.

While Article 3 of this chapter has defined several items like Member, Natural person, Legal person, Administration, Administrator, Financial auditor, Founders, Net income (surplus), Share, Admission fee, Membership fee, Joining, Amalgamation, Division, Liquidation, Farmer, Agriculture sector, Agricultural cooperative, it is important to explicitly mention the last two items in the present context. Very correctly, agriculture is broadly defined to cover all those activities involved in growing and producing all types of plants, animal husbandry, agribusinesses and agricultural services, while it has stuck to the commonly used definition of agricultural cooperative as *“an autonomous association of farmers united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise”* (Draft Law, 2013, p.4).

Although not elaborated, Article 4 has accepted all the 7 principles of cooperatives. Article 5, on the other hand, has classified agricultural cooperatives into 6 categories in terms of geographical coverage:

Primary, District, Provincial, Zonal, Central and National, while allowing primary and district cooperatives to become members to higher level bodies, if the next higher tier body is missing.

Article 6 has assigned the following duties and responsibilities to the Administration:

- 1 *“Investigating the registration, application and statute of agricultural cooperatives to decide upon their acceptance or rejection based on the provisions of this law.*
- 2 *Designing legal documents (Law, general rules, regulations and procedures, and sample of statutes) for organization of the activities of agricultural cooperatives.*
- 3 *Designing policy and strategy for development of agricultural cooperatives in the country.*
- 4 *To assist and advise agricultural cooperatives in the process of establishment, organization, growth and development.*
- 5 *To assist and advise agricultural cooperatives in drafting statutes, and internal procedures, regulation, agreements and contracts.*
- 6 *To monitor and audit the activities, documents, and transactions of agricultural cooperatives*
- 7 *To create opportunities for cooperation and coordination between agricultural cooperatives, and between agricultural cooperatives and their unions.*
- 8 *To watch the observance of the provisions of this Law, statutes, and rules*
- 9 *Facilitating and providing mass media, training, technical, and research activities of agricultural cooperatives.*
- 10 *To represent agricultural cooperatives in the country and abroad, until the national agricultural cooperatives union is established.*
- 11 *Performing other duties according to the provisions of this law” (ibid, pp.5-6).*

The Draft Law has stipulated that Central and National Unions shall be registered as per the provisions of social organization law in the Ministry of Justice.

Chapter 2 of the Draft Law lays down the conditions for establishment and registration of agricultural cooperatives at various levels. Article 7 has spelt out the conditions for establishment of primary cooperatives at village or village cluster level as follows:

- 1 *“At least 11 farmers united voluntarily in a specific area of agriculture sector;*
- 2 *Having the statute based on the provisions of this law;*

- 3 *Having a business plan ;*
- 4 *Payment of admission fee, membership fee by members;*
- 5 *Payment of share-capital as requirements of the cooperative by members ; and*
- 6 *Registration of cooperative in the administration” (ibid, p.7).*

It stipulates only one primary cooperative in one village/one cluster of villages. Similar conditions are set for establishment of higher-tier cooperatives up to the national level. Statutes of agricultural cooperatives are assigned the responsibility of fixing in details the objectives, responsibilities, authorities and the mode of distribution of profit (surplus) of cooperative, and method of cooperative functioning, besides regulating the same.

The Draft Law stipulates the statute of primary cooperative to be prepared by its founders and that of secondary cooperatives by their representative members, while including “(1) Title, goal, purpose and activities, (2) Address & coverage, (3) Rights and obligations of members, (4) Conditions for expulsion and cancellation of membership, (5) Magnitude of admission and membership fee of members, (6) Value of one share, and total number of shares of the cooperative, (7) Declaring of financial sources, and organization of financial & accounting affairs, (8) Organizational structure, (9) Procedures for modification of the statute, (10) Procedures for convening the General assembly meetings, and authorities, (11) Procedures for appointing board of directors and supervisory council, and determining their authorities, (12) Controlling procedure for internal activities of cooperatives, (13) Liquidation and clearance based on the provisions of this law, and (14) All other issues that are not in conflict with the provisions of this law” (Ibid, p.9). Such statutes are to be approved before registration by its founders in case of primary cooperatives and by their representative members for secondary cooperatives.

The registration process is stipulated by the Draft Law as follows:

- (2) “(1) The registration application of primary cooperative, district cooperative, provincial cooperative, and zonal cooperative shall be signed, respectively, by at least 11 founders, authorized representatives of at least three primary cooperatives, authorized representatives of at least three district cooperatives, and authorized representatives of at least three provincial cooperatives.
- (3) (2) Registration application of agricultural cooperative along with its statute and relevant documents shall be submitted to the administration.
- (4) The administration shall analyze and assess the application at last within 30 days from the

date of submission, and officially declare its decision about the acceptance or rejection of the application.

- (5) If the application is approved, the administration shall register it, and issue the license, which shall be published via one of the mass media.*
- (6) If the applicants found decision of the administration in conflict with this law, they can appeal to the judicial organs.*
- (7) If the license of an agricultural cooperative is burnt or lost or damaged due to any other reasons, the administration shall issue new license according to the regulations” (ibid, p.10).*

Regarding modification of the statute, the Draft Law’s stipulations are the following:

- (1) “The statute of agricultural cooperatives shall be modified as per approval of General assembly meeting and the administration.*
- (2) If the administration does not approved modification in the statute, the issue shall be officially brought to the attention of the agricultural cooperative with reasons of rejection within at last 30 days from submission of modification application by the cooperative.*
- (3) If the applicants found decision of the administration in conflict with this law, they can appeal to the judicial organs.*
- (4) The modification which may change the title of agricultural cooperative, shall not affect its right and commitments.*
- (5) The modified statute shall be effective, after being approved by the administration which shall be published through one of the mass media” (ibid, pp. 10-11).*

Legal personality of a cooperative is confirmed only after its statute is approved and registered as per the provisions of law.

Chapter 4 of the draft law covers organizational structure and management of agricultural cooperatives, contained through 6 Articles and provides guidelines for founders of the cooperatives, management bodies, General assembly, Board of Directors, supervisory council and executive director.

As per the Draft Law, the founders of the cooperatives would prepare statute as per provision of the law, invite qualified individuals or agriculture cooperatives for membership, convene first General assembly meeting and submit application for registration to the administration. The management bodies of the agriculture cooperatives are General assembly, Board of Directors and supervisory council.

The General assembly is the highest decision making authority in a cooperative, to be constituted from

all natural members of a primary cooperative and in secondary and cooperative unions, General assembly will be constituted by the representative members of primary cooperatives or secondary cooperatives, as the case may be. The General assembly is required to convene ordinary and extraordinary meetings and each member will have only one vote, irrespective of their contribution in share capital. The first meeting of the General assembly is proposed to be convened within 45 days of obtaining registration, The ordinary meeting of the General assembly would be convened at the request of the Board of Directors at the end of the fiscal year which would generally discuss the following:

- (1) "Appointing, removing and substituting members of the Board of Directors and supervisory councils;*
- (2) Evaluating the annual reports of the Board of Directors and supervisory council;*
- (3) Distribution of cooperative's profit (surplus) and compensation of losses, incurred by the cooperatives, according to the statute;*
- (4) Electing representatives for the secondary cooperative and cooperative union, if the cooperative is member of the same;*
- (5) Approving organizational and economic plans of the cooperatives;*
- (6) Confirming regulations and guidelines for performing activities of cooperatives;*
- (7) Considering complains of members about miss-information of Board of Directors and supervisory council;*
- (8) Deciding on all issues which are not in conflict with the provisions of this law and structure of the cooperative" (ibid p.16-17).*

Quorum of ordinary General assembly meeting would be complete by presence of the absolute majority of the members, and then decisions would accordingly be taken. If the quorum is not completed, the meeting would have to be held again. If the Board of Directors cannot hold the meeting within the specified time, the administration would have to convene the meeting directly.

The Board of Directors is authorized to call extraordinary General assembly meeting of cooperative as per necessity, and direction of the administrator or financial auditor within one month of the application to discuss following issues:

- 1. "Modifying the statute;*
- 2. Joining, amalgamating and splitting the primary cooperative,*
- 3. Liquidation of cooperative;*

4. *Membership or exclusion from secondary cooperative;*
5. *Regarding exclusion of a member or a member of the Board of Directors for trespassing and abusing the cooperative, and showing indifference in executing his/her duties; and,*
6. *All other issues necessitating holding of extraordinary General assembly meeting which are not in conflict with the provisions of this law and statute of the cooperative” (ibid p. 17).*

Quorum of extraordinary General assembly would be complete by the presence of at least 75% of the members. In the absence of quorum, the General assembly would have to convene for the second time within 15 days with a quorum of at least 67% of the members; else the meeting of General assembly is suggested to be postponed for additional 15 days and the extraordinary General assembly meeting would then be held for the third time with participation of (50+ 1) of members. In case, the extraordinary General assembly is not convened for the third time, the administration would have to organize extraordinary General assembly meeting of the cooperative.

Administration and management of cooperative affairs between two ordinary General assembly meetings is proposed to be looked after by the Board of Directors which may have at least five members and two reserve members elected by the General assembly from amongst the members for a period of at last three years. Election of the Board of Directors is permitted for two consecutive terms. The Board of Directors would have to select from amongst themselves a director, a deputy director, a secretary, and a cashier in their first meeting. If any member of the Board of Directors resigns, expires, or unwell with incurable disease or remains absent for a prolonged period, one of the reserved members is allowed to be selected based on their relative number of votes. The members of the Board of Directors should possess basic education so that their appreciation on managing cooperative businesses is relatively easies. The principle duties and responsibilities of the Board of Directors are:

1. *“Calling for the general assembly (ordinary and extraordinary) meetings and preparing its agenda according to the statute*
2. *Executing the provisions of statute, decisions of General assembly, and other rules;*
3. *Legal representation of the related cooperative; and*
4. *Performing all other duties and responsibilities that are not in conflict with the provisions of this law and related statute” (ibid p.18).*

Financial and accounting affairs of agriculture cooperatives have been documented through Chapter 5, containing 4 articles with subject matter as shares of agriculture cooperatives, assets of agriculture cooperatives, accounting & financial affairs and exemptions.

As per chapter 5, share of one agriculture cooperative is proposed to be unlimited in numbers, and the value of each share is fixed in the related statute. All shares of cooperative would have equal value such that each member could subscribe to and pay for one more share, but no member is entitled to more than 15% of total shares of the cooperative. If the share capital of a cooperative is not sufficient to fulfil its mandate, the administration could determine the required amount of share capital. The share of a member would not be transferrable to any other debtors except for liabilities of the cooperative.

The assets of a cooperative would include principal capital, contingency reserves and special reserves. The assets listed in the first paragraph of this article could only be utilized for the realization of the objectives of the cooperative. The mechanism for formation and utilization of assets of cooperative would be mentioned in the related statutes of the cooperative.

The rights and obligations of agricultural cooperative members are laid out through Chapter 6 with one article. Each member of cooperative is entitled to certain rights and obligations, as under:

1. *“Ask for those services which form the objective of the cooperative;*
2. *Participate in the General assembly meetings to elect or be elected in any of the cooperative organization or as representative in a secondary cooperative or national cooperatives union provided that the cooperative is affiliated to the same;*
3. *Each member, irrespective of his/her, share shall have only one vote;*
4. *Participate in the meetings of the Board of Directors and supervisory council as spectator;*
5. *Utilize the profit (surplus) of cooperative according to the criteria specified in the General assembly;*
6. *Resignation from membership according to the statute” (ibid, p.20).*

The obligations of members are stipulated as:

1. *“Respect the provisions of this law, the statute, and other regulations of cooperative;*
2. *Execute the decisions of General assembly, and authorized organs of cooperative based on the provisions of the related statute;*
3. *Active participation in economic and other activities of cooperative, protection of cooperative assets, and abstain from inappropriate expenditure;*
4. *Admit responsibility for liabilities and losses incurred by the cooperative, according to the statute” (ibid p. 22).*

In Chapter 7 of the draft law, issues regarding joining, amalgamation, division and liquidation of agricultural cooperatives have been contained through 5 articles. In matters relating to joining, amalgamation and division, it has provision for a primary cooperative to join or merge with another identical primary cooperative at village cluster level. Further, the primary cooperative shall be divided into two or more cooperatives at village level, and joining, amalgamation, and division of primary cooperatives shall be carried out according to the provisions of this law, the statute, and other regulations. The law provides for liquidation under the following circumstances:

1. *“If a cooperative has lost 80% of its principal capital, and there is no chance of its revival;*
2. *If 75 percent of the members of a cooperative ask for liquidation;*
3. *In case, the total number of members of a cooperative is reduced to less than the threshold level mentioned in this law;*
4. *If a cooperative is not economically active for more than two years under normal circumstances;*
5. *If the license of a cooperative is not extended within two years; and,*
6. *If the General assembly meeting is not convened within 90 days after the end of fiscal year” (ibid p.23).*

The administration shall organize clearance commission for liquidation of a cooperative which will be consisting of Director of Department of Agriculture, Irrigation and Livestock of related province as head; general manager of agricultural cooperatives of related province as member; representative of revenue department of related province as member; authorized representative of the cooperative as member. After the task of the clearance commission is completed, members shall receive their shares and deposit except from that part of members' shares paid for compensating losses and liabilities of the cooperative, based on the decision of the General assembly. The remaining capital, if any, shall be divided between members according to the decision of General assembly. Distribution of special and contingency reserves and grants of a cooperative shall not be allowed; they shall, instead, be utilized for the development and extension of agricultural cooperative movement in the country as per decision of the administration.

Under Chapter 8 of the Law Miscellaneous Provisions have been laid down through 4 articles which include cooperation of organization, conflict resolution, re-registration, observance of law and enforcement. As per the provision, all governmental and non-governmental organizations shall assist

agricultural cooperatives for development and growth of cooperatives through technical, value adding, agro- services, and other contributions.

The conflicts within agricultural cooperatives, between agricultural cooperatives, and between agricultural cooperative(s) and their unions are proposed to be solved through mediation of the administration involving both sides of the conflict. If the parties in conflict are not satisfied with verdict of the administration, they may appeal to the legal authority within 30 days from the announcement of arbitration decision in this regard.

The Draft Law stipulates that agricultural cooperatives registered before the enforcement of this law are required to apply for re-registration along with the related documents within two years from enforcement of this law to the provincial offices of the administration. Under no circumstances, they are allowed to function under the name of agricultural cooperatives unless they are registered in accordance with the provisions of this law. International trade license is stipulated to be issued on the request of an agricultural cooperative by the Ministry of Commerce.

Section 5.4: Draft Afghan Cooperative Law & ILO Guidelines – A Comparative Perspective

This section is devoted towards developing a comparative perspective between the Draft Afghan Cooperative Law and the ILO Guidelines so that one can pinpoint the points of strength and weakness of the first serious attempt in Afghanistan to provide a sound legal framework for building up grass root agricultural cooperatives for a war ravaged economy which appeared to have got lost in three decades of civil war and conflict. As pointed out in the preceding chapters, though Afghanistan too, like many other countries in the world, had an age-old tradition of cooperatives, those traditions appeared to have got buried during the period of long civil war following Soviet invasion. Though the Soviet-backed government seemed to promote grass root cooperatives, they were mostly impositions from above probably aimed at controlling the countryside rather than initiating genuine cooperatives. At this stage, no trace is found of any formal attempts during the earlier war periods, except some piecemeal international efforts, to put cooperatives on a rigorous and sustainable footing. In view of this background, the government of Islamic Republic of Afghanistan must be credited for attempting to come out with a fairly rigorous Draft Agricultural Cooperative Law, which the country was looking for over the long past.

Whereas the ILO Guidelines (2012) is the result of a long period of experience based on numerous experiments across countries, the Draft Law (2013) of war-ravaged Afghanistan, though exposed to the ILO guides, never had the opportunity to build up on such vast and rich experiences. Nevertheless, the close proximity between the Afghan Draft Law and the ILO Guidelines in capturing the true spirit of

grass root cooperatives is quite striking, though it is well understood that given sufficient time and more enriching experience, this small piece of proposed Act will evolve into a world class legislation with a few outstanding examples to vouch for the necessity of such legislation.

Though considerable fine-tuning is deemed necessary, which can happen only over time, the Draft Afghan Law seems to have displayed high level of maturity in accommodating several outstanding features of the ILO Guidelines. First, unlike India, which has treated cooperatives as a part of the government for a long time⁴¹, the Draft Afghan Law has left no illusion about ownership of cooperatives, as these are clearly declared as part of the private economy, though they are quite distinct from IOFs. Second, although Afghan cooperatives are in their infancy, the Draft Law has quite imaginatively made provisions of higher tier bodies at district, province, region and national levels to tap the full benefits of the cooperative mode of organization. Third, the Draft Law, quite consistent with the true spirit of cooperatives, hasn't looked upon cooperatives merely as economic organizations, but also as vehicles to achieve social and cultural goals. Although the Draft Law hasn't spelt out the details of the National Union except that it is looked upon as a national confederation, probably inadvertently the Draft seems to have come close to creating what in recent literature on cooperatives is being referred to as multi-stakeholder cooperative, where diverse interest groups are not merely tolerated, but embraced within a single cooperative structure. This approach has now-a-days come to be known as 'Solidarity as a Business Model'.⁴² Although multipurpose cooperatives aren't explicitly encouraged in the Draft Afghan Law, with its critical emphasis on Business Development Plan as an indispensable tool for cooperative development, the country may as well highlight this multi-stakeholder feature beginning from primary level cooperatives and thus join the Solidarity group of cooperatives in the coming days.

However, there are a few observed gaps in the Draft Law, as we compare it with the ILO Guidelines, which need to be filled in in the coming years if sound cooperative governance is to become a reality in Afghanistan. As suitable legal frame is a necessary condition for good governance and high organizational performance, some of the observed gaps in the Draft Law are listed and explained below to facilitate possible future reforms in cooperative governance structure:

1. As the ILO Guidelines has highlighted time and again, a cooperative form of organization constitutes a delicate balance between democratic association and enterprise characteristics. This distinctive feature of cooperatives ought to find a place with necessary elaboration in the preamble

⁴¹ Even after relatively recent Constitutional Amendment to remove this illusion, most traditional Indian cooperatives continue to run as para-statal bodies, with high dependency on government finance, administration and policy support. For details, see Datta (Ed), 2004.

⁴² Source: Cooperative Development Center, Kent State University, 2011

of Afghan Law so as to signal future perspectives of what the country wants to achieve, besides why and how through agricultural cooperatives. Not only inclusion of but also illustration on cooperative principles, cooperative identity and cooperative definition in simple, crisp language in the preamble are therefore urgently needed to set the stage right.

2. Unlike the ILO Guidelines, the Draft Law hasn't elaborately discussed the documents needed and the process to be followed for cooperative registration.
3. While the Draft Law has made provisions for higher tier cooperative bodies and stipulated unique physical jurisdiction for cooperative unit, it hasn't provided any operational clue towards allocation of geographic areas, which can avoid possible confusion due to conflicting claims by two or more cooperative units, as it happened in India. Maybe only after such conflicts will arise, sensitivity for clear demarcation of areas across cooperative units will arise to find a solution.
4. Although multi-tier cooperative structure is provided for Afghan agriculture, one must raise a caution against possible misuse of the multi-tier structure, as Indian credit cooperative are suffering from. The Indian credit cooperatives have a three tier structure. When agricultural refinance is provided to cooperatives by National Bank for Agriculture & Rural Development (NABARD) at a rate much higher than it accesses low-interest fund from Government of India and/or international agencies, it first enters the State Cooperative Banks (the highest tier), which then relends the funds against some percentage commission to the second tier cooperative bodies, called District Central Cooperative Banks, the grass root level cooperative credit cooperatives in the third tier ultimately receiving these funds for on-lending again at a certain percentage of commission. Consecutive mark-up of interest rate due to commission payment at multiple cooperative tiers belies the very purpose of cooperative credit – making it prohibitively costly and cumbersome due to a series of bureaucracy, but hardly making it timely and efficient. This has happened because of multi-tier bureaucratic structure, where cost is added at each tier, while there is no value addition for the customer. The dairy cooperatives in India, on the other hand, follow what is popularly known as the Anand Pattern, wherein each tier performs a distinct economic function, enjoying economies of scale at that level and thus adding value for the customer at each step. No wonder, the Anand Pattern of dairy cooperatives using this strategy has to the stage of establishing a global brand called AMUL⁴³. So, Afghan agricultural cooperatives, as they are still in formative stages, may extract the necessary lessons from India's above-stated experiences to tighten the governance structure of their higher tier cooperative bodies and ensure their success

⁴³ See, for example, Datta (Ed), 2004

and sustainability.

5. While the first cooperative principle emphasizes ‘open membership’, the objective isn’t to embrace members who have no capability, nor any interest in using the services of the cooperative. Hence, there is need to qualify this principle and define active membership – members with attributes to make use of cooperative service of a minimum quantity and/or for a minimum period, which must be included in the definitions provided in Article 3 to safeguard the interests of genuine cooperatives. Once again, example may be cited from the Indian states of West Bengal and Kerala, where communist provincial governments in their eagerness to expand their support base opened the floodgate for membership through a ploy called ‘universal membership’ by which anybody could become member of any cooperative without paying for the full share value and without using the cooperative services, but only to distort the governance structure through opportunistic voting and pulling down accumulated reserve funds and established business activities. So, qualifications are also needed for members aspiring to become a Board member if genuine cooperatives are to be protected (see, Datta (Ed), 2004, for details).
6. As cooperatives are inherently capital-deficient, alternative routes of raising capital, as elaborated in ILO Guidelines, must be covered with appropriate illustrations of pros and cons, and safeguards. While capital deficiency must be overcome at least in the initial stage, cooperatives can’t afford lose their democratic character, as many para-statal cooperatives in India seem to have done by allowing heavy inflow of government share capital contribution together with its many associated undesirable consequences.
7. As cooperatives are not profit-making companies like IOFs, cooperative surplus has a distinct meaning and implications, which is elaborated in details together with its computation in the ILO Guidelines. Afghan Draft Law would benefit if this subject is treated with similar details. Also because cooperative taxation is quite different from corporate taxation, the taxation issues also need detailed treatment, besides bringing out the tax implications of cooperative dissolution and liquidation.
8. Board of Directors (BOD) of cooperatives are required to perform a different role as compared to their IOF counterparts, given their dual association and enterprise characters. So, being interface between the member patrons and their General Assembly, on the one hand, and the management and administration, on the other, they must always strike a knife-edge balance between association and enterprise interests. So, the provisions made in Article 24.2 that “*the board of directors shall select from amongst themselves a director, a deputy director, a secretary, and a cashier in their*

first meeting” look totally unwarranted, maybe by mistake; BOD is a policy making, guiding and supervising body, which can’t directly take up the job of administration and management.

9. Similarly, the external auditor has a distinct role for cooperatives, as rightly emphasized by the ILO Guidelines. Their main job being preserving the interests of cooperative members, this task can’t be left to government administrators, as the Draft Afghan Law seems to have done. Indian cooperatives were subjected to government audit for a long time with all possible ill consequences, from which the Afghan cooperatives should probably learn. ILO Guidelines have justifiably argued for development of an independent audit fund from which independent auditors can be drawn by cooperatives to perform this job in the most efficient manner.
10. Probably the Draft Law was drawn in a haste. So, probably a thorough editing and fine tuning is necessary.

PART 3:

CRITICAL REVIEW OF FUNCTIONING OF AFGHAN AGRICULTURE COOPS AND STRATEGIES FOR COOPERATIVE DEVELOPMENT

This part of thesis contains 3 chapters reflecting primary evidence drawn from a sample survey of coop members, BODs and case studies and summarized views of the outcome of a Workshop conducted among DACD staff and officers to understand their sense of cooperative perspectives and the limitations and bottlenecks that this critical organ of the Government is confronted with and a road map to overcome them. While these analytics brought to the fore a sense of the conditions prevailing at the ground zero level, they brought rich insights on the table for initiating comprehensive agenda for cooperative reform involving both internal as well as external stakeholders including that of the Government. On the basis of the findings and insights emanated from these multi- dimensional researches, the thesis come out with a set of recommendations and the responsibilities of different actors in the game to rise to the occasion for a greater good of agricultural cooperatives of Afghanistan. The thesis also identifies certain critical areas for further research keeping the academic and policy level requirements of this sector open for younger generation to continue working in these areas and enriching scholarly world alongside making impact for development causes of Afghanistan.



CHAPTER 6

**Case Studies and Analysis of Sample Data on Afghan Agricultural
Cooperatives**



Case Studies and Analysis of Sample Data on Afghan Agricultural Cooperatives

Section 6.1: Introduction

Conducting comprehensive case studies and collection of field based primary data based on a rigorous sample design is next to impossible in the current law and order situation of Afghanistan, especially in deeper rural pockets. The present dissertation has however made a very modest attempt to fill in this vacuum by undertaking selected case studies of five accessible cooperatives (covering both relatively well-functioning and weaker units) and collection of primary data from a small sample drawn on the basis of ‘convenience’ sampling⁴⁴ and no rigorous sampling design.

Subject to the above-stated constraints, which would certainly affect the statistical generality of the results, this chapter is devoted to understanding the grass root situation of the agricultural cooperatives in Afghanistan through a mix of the two approaches – namely, selected case studies and a simplistic analysis of a small primary survey of selected cooperative members and members of their Board of Directors.

The case studies were conducted to understand the principal themes of the investigation – namely, governance, stakeholder involvement and use of foreign aid, besides other issues. A check list of 44 questions were prepared in advance covering the above-stated areas, in addition to some associated areas that were relevant for an in-depth understanding of the cooperative businesses, their history, present legacy and the legal and fiscal environment under which the cooperatives are operating (see Annexure 6.1), though full response couldn’t be obtained for understandable reasons from all respondents on all questions raised.

The five selected case studies are presented in narrative form in the following section for an in-depth understanding of the perspective of the cooperatives. Section 3 attempts to provide a synthesis of these case studies by trying to relate them to the main themes of this dissertation.

As mentioned earlier, a limited primary survey of a select group of members (n=22) as well as BOD members (n=19) across 23 cooperatives from 16 out of 34 provinces of the country generated probably the first base line data of Afghan agricultural cooperatives, which were virtually absent in the past⁴⁵. A

⁴⁴ ‘Convenience’ sampling may be interpreted as selection on the basis of approachability and consent on the part of the cooperative authorities to share mostly qualitative information, given the grave law and order situation still prevailing in most parts of the country.

⁴⁵ The rest of the provinces couldn’t be accessed, given serious law and order conditions. Even choice of districts within a selected province and choice of cooperative within a district was prompted by the same consideration.

list of the cooperatives covered is presented in Annexure 6.2, whereas Annexures 6.3 and 6.4 display the structured questionnaires used to solicit data from the accessible cooperative members and BOD members, respectively. Once again getting full-fledged answers to all the questions posed turned out to be impossible. So, this study turned out to be at best imperfect. Simple tabular analysis of the data generated from this primary data base is presented in section 4. The primary survey also brought to light awareness of the members about cooperatives and their expectations. The final section attempts to bring out the lessons learnt for evolution of future strategies for development of Afghan agricultural cooperatives.

Section 6.2: Case Studies of Five Selected Agricultural Cooperatives

As mentioned earlier, the five case studies are selected in a manner, subject to their approachability and consent to be examined, such that one can contrast variation in both internal and external factors between relatively well-functioning and weak units. Three of these case studies correspond to the first category, while two belong to the weaker category. While Kabul Dairy Union (KDU), located in Kabul Province and sponsored by FAO, Khatiz Dairy Union (KhDU), located in Nangarhar Province and sponsored by IFAD, and Qura Baghi Robat Cooperative (QBRC), located in Parwan Province, dealing with grapes and sponsored by HCDP belong to the first category, Green Turkman Agri Coop dealing with saffron and located in Parwan Province and Baba Qushqar dealing with grapes and located in Kabul Province belong to the second category. Incidentally, the last two cooperatives didn't have any donor sponsorship. Subject to availability of information, which varies from one case to another, the rest of this section attempts to present each of these cooperatives in the same order and using as far as possible a uniform format covering their background, business, governance, foreign aid support and constraints being faced.

(1) *Kabul Dairy Union (KDU)*

Background

Dairy farming in Afghanistan is an integral part of rural economic life, deeply integrated with the agricultural production system. While agriculture is largely subsistence type mainly for family consumption, milk production is no exception. A typical rural family in Afghanistan has had significant dependence on agriculture for food security in an ecosystem where ownership of land and livestock constitute probably the two most important assets that ensure food security, besides socio-economic status. Surplus of crop production is usually sold in the market and the realization thereof becomes the cash earning of families in their pastoral rural life. As some elders in the society recounting their cultural values in the rural society point out that selling milk was never a normal practice, as it was considered

sinful, and had therefore to be consumed within their societal perimeter. Though there were implicit economic reasons to induce selling of milk, the traditional value system didn't allow it to be widely practiced.

The market for milk thus had not grown in a self-contained rural society; scale of production too was low thus rendering milk selling difficult; the idea of aggregation of household marketable supply into a common pool and then transporting it to market place did not grow; impediment in rural transportation, low affordability of the Afghan people to pay for milk, and lack of security and instability further dampened the chance of a milk marketing system to develop.

However, after establishment of independent Islamic Republic of Afghanistan the need to organize the rural society into a form of collective organization began to be felt, which later took the form of dairy cooperatives, in some specific locations, as a remedy to overcome the broader social, cultural and economic and infrastructural issues. The Kabul Dairy Union was established under technical and financial support of FAO in 2007, and a dairy plant with 5000 liters'/day capacity was set up in Kabul city, and milk supply to the plant was ensured by 950 members across 9 village dairy cooperatives in the catchment areas in the districts of Logar, Maidan, Wardak and Kabul. The Islamic Republic of Afghanistan allotted land to KDU, and a comprehensive dairy processing infrastructure was created over there. The Union has obtained ISO 22000:2005 Food Safety Management System (HACCP) certificate for primary production and marketing. The KDU is supported by MAIL, International Fund for Agriculture Development (IFAD), a specialized agency of the United Nations. This was covered under Community Livestock and Agriculture Project, Afghanistan of IFAD, 2012 (www.webapps.ifad.org).

Management of Business

The management committee members informed that the number of members are continuously rising, though they pointed out that generally at every 3 years interval drought and scarcity of irrigation water becomes a major issue which directly affects active membership of the cooperatives. The magnitude of variation in supply is limited to around 10%. Most of the members have small agricultural holdings and they are small producers. Though the male members enroll themselves with the cooperatives, the involvement of women in dairying is overwhelming and most of the domestic animal husbandry work is being taken care by the women. They manage their cows, feed them, milk their animals and take milk to the cooperatives for sale, oversee milk payment system and even directly collect payments from the cooperatives

The members supply milk to village collection centers, wherefrom milk cans are transported by trucks

to the dairy plant, twice a day; milk quality is tested at the village level for all members, and again at the plant level, cooperative wise. Milk sale of the members to dairy cooperatives are entered into their passbook indicating date wise, milk sale, fat percentages and total value of milk. The members are paid as per quality of milk poured to the cooperatives, and the quality of fat is measured by Gerber method and lactometer reading, eliminating human bias in measurement of quality. An identical method of quality check at the plant level ensures strict quality control of milk before production and marketing. The farmers' average realized price of milk is Afs 23.00 per liter, with 3.0% fat. The village milk collector of the cooperative receives Afs 2.00 per liter of milk towards his remuneration.

The plant has a processing capacity of 5000 liters a day, operated at full capacity, and also consistent with the volume of milk collection. It does not use conserved dairy products for recombination into liquid milk, and milk so collected is claimed to be organic, with high brand value in the consumer market. Under IFAD assistance, community level awareness program is initiated and a target of increasing milk collection to 30,000 liters a day is envisioned.

The processing facility has diversified milk product manufacturing facilities like Yogurt, Butter, Butter Milk, and Paneer though it has limited packaging facilities, requiring improvement. It has incubation facility and also a cold storage. Milk products are sold in the Kabul market under a premium brand name "*Guzargah Dairy*"⁴⁶. There is a cattle feed mixing plant which manufactures mash feed, sold to the dairy cooperatives at a lower price (about 100-200 Afs less) as compared to the reported open market price of Afs 1050 per 50 kg bag.

The Union provides artificial insemination service to their members through Ministry of Agriculture, Irrigation & Livestock (MAIL). The preferred breed is HF. The members of the Board of Directors (BOD) report that the farmers also use natural service, for which the professional bull keepers charge Afs 500 per service. The union has other associated services for their members like supply of chaff cutter, distribution of fodder seeds and mineral mixture. The extension service is provided by the Directorate of Agriculture, Irrigation & Livestock (DAIL). A typical dairy farmer owns less than 3 *jeribs* of agricultural land and 1-6 animals. It is reported that earlier an average cow used to cost around Afs 20,000, but after initiation of cooperative milk collection, the average cow price has shot up to around Afs 70,000, indeed a significant appreciation in capital value of animal asset⁴⁷.

⁴⁶ "Our milk is 100% organic, so we do not face competition in the market" proudly told Mr. Ghulum Zakria Ahmadzay, the Chairman of the above-stated dairy cooperative to the field investigating team.

⁴⁷ On this point, Mr. Ghulum Zakria Ahmadzay remarked: "The average net profit per cow is Afs 6000 per month, higher than the average salary of a government employee".

Governance

The KDU is managed by an elected BOD, which appears to have gathered good experience in managing the affairs of the KDU. The BOD meets monthly and the decision and minutes of the meetings are recorded in the registrar. The annual general assembly is a well participated event where most of the members participate. From discussion during the field work, it appears that the relationship between the KDU and Directorate of Agricultural Cooperative Development (DACD) is weak⁴⁸. KDU however is learnt to have been maintaining good relations with the Ministry of Finance, the National Environmental Protection Agency (NEPA), the Ministry of Public Health and the Ministry of Commerce & Industries (MoCI).

The KDU has 38 persons on their pay roll to manage milk collection, processing, packaging, milk marketing, cattle feed plant and other services. The average salary of the staff varies between Afs 5,000.00 to 50,000.00 depending on educational qualifications and experience.

KDU undertakes school visit programs for the school children, general awareness program for the farmer members (MAIL supported), and arranges short term internships for technical and management students.

The main stakeholders of KDU are the farmer members. They receive payment for their milk from the cooperatives on quality based milk on weekly basis in cash, receive subsidized cattle feed of good quality, fodder seeds, AI service and participate in the awareness building program. There is a general convergence of inputs from many Ministries (MAIL, Finance, Public Health, NEPA etc.) that benefit the farmer members, directly or indirectly. About Afs 80,000.00 have been mobilized as share capital contribution from the members by KDU. Moderate increase in the number of farmer members over time is an indication of farmer members' satisfaction with the cooperative institution in terms of receipt of milk payment and doorstep delivery of technical inputs that for milk production.

The involvement of some of the Chairpersons with the dairy cooperatives for a fairly long period, while even holding their positions for a long time, seems to indicate that they have emerged as strong leaders within their communities. Emergence of such leadership from cooperatives within the Afghan society in the current environment of the country is definitely in favor of the cooperative movement in Afghan agriculture, but in the longer run interests of the cooperative business and of the country, in general, younger generations must be attracted to this sector and groomed to maintain continuity. Some of these leaders are also involved in the management of KDU; apparently they have developed good

⁴⁸ In fact, one of the key functionaries of KDU, Mr Gulam Rasool, Manager (Operations) went to the extent of saying: "We do not get any support from DACD"

understanding of the milk business - both production and marketing, and are keen to take this institution forward.

Role of Foreign Aid

The KDU has had the benefit of external assistance from a good number of international and national institutions. As mentioned earlier, FAO had extended the founder support through technical assistance and provided grant for putting up of plant machinery and equipment. The IFAD has also been supporting KDU with backward support in the form of training and awareness building program for the cooperatives, livestock management practices and providing help in establishing bondage with the cooperatives. Various government agencies are also associated with KDU, MAIL being one of the most significant contributor in granting leasehold right of land for the plant premise. The Horticulture Cooperative Development Project (HCDP) under French Cooperation Office (FCO), MAIL has specifically sponsored overseas training and capacity building program for the management and technical personnel of the unit. The feed mixing plant of KDU has been receiving feed mixing ingredients from various National Ministries as well as some international donors, which are supporting the national cause of providing feed security for the dairy animals. It is interesting to note that international agency like Red Cross seeks KDU's help in the supply of feed mixture.

From the activities performed by the KDU, the present status of the unit and also from the discussions with the stakeholders, it is found that through utilization of foreign aid for institution building, sustainability of the institution, gaining market access, and achieving a competitive position in the market place, the KDU is making a positive stride. Though the cooperative institution is on a good footing, it has envisioned to grow further, given high potential for milk marketing in Kabul.

Constraints of the organization

The KDU plant is small, in relation to the total market potential of Kabul. It requires a homogenizing plant on immediate basis. A stage has now come when the plant would require complete overhauling, if the additional target of 30,000 liters of milk is to be collected. In addition, the packaging plant will have to be improvised. Irrigation water being uncertain for agriculture, the stakeholder's interests fluctuate depending on water availability, which is at this stage an uncontrollable environmental factor. Nonetheless, the farmer members report it to be one of their major issues related to agricultural and milk production.

One of the major challenges faced by KDU is that the registration certificate obtained from DACD does not enjoy any legal validity in the evaluation parameter of the MoCI. Further, in matters related to dealing with commercial issues with other government agencies, one of the conditions is that the license

from MoCI is mandatory, which has become difficult for the cooperatives. This is one of the major impediments for cooperative business, unless inter-Ministerial coordination is sufficiently strengthened.

Under the Ministry of Finance, the KDU is liable to pay taxes- - 20% on profit and 4% Business Receipt Tax (BRT) across the board, which is a deterrent. The cooperatives pass on the BRT tax burden on to the members, and the members are of the opinion that this is a great impediment for their continuation with the milk cooperatives. If a milk producer, on the other hand, sells his milk locally, he doesn't pay BRT, but a cooperative member cannot escape BRT. It appears that this issue ought to be discussed at the highest level of policy making, and if cooperative development is acknowledged as the avowed path of development for this war-ravaged poor country, exemption from BRT needs to be granted this priority segment of business⁴⁹. Following the logic of cooperation at primary level followed by most developed nations, cooperatives unlike IOFs are subject to only single taxation (generally, at individual level) so that certain distributions of net income including patronage refunds by cooperatives to members, which are interpreted as items of cost, are income tax exempt⁵⁰. When most developed nations follow a favorable policy for cooperatives, developing countries like Afghanistan ought to look at the taxation issue for agricultural cooperatives in particular from a broader consideration of social and community development perspectives

To conclude, the KDU has been portraying an example fairly good governance in the cooperative structure with considerably high stake in the business enterprise of the members and under a committed leadership team of elderly leaders, who appear to have been poised for a larger potential growth, provided that the national and international supports are not withdrawn. The KDU case also signifies how foreign aid or technical assistance can be productively utilized for generating value to the member user of the cooperatives.

⁴⁹ It may be pointed out in this context that for a long time both state and central governments in India, consistent with cooperative policy in most developed nations of the country, used to provide a variety of supports to promote cooperatives, though only few of them, including the famous national dairy brand called AMUL, could convert these early supports into long term comparative advantages, even when such supports started are being removed after liberalization and globalization of the Indian economy. However, most cooperatives seem to have misused the early policy support and have continued to have remained dependent on such favors, even at the cost of their autonomy and independence. For details on this issue in the Indian context, see Datta (Ed), 2004.

⁵⁰ In the US, section 521 cooperatives, which must qualify for this status in terms of limited non-member business in a financial year, enjoy further deductions. For details, see, for example, Royer; "Taxation", Chapter 16 in Cobia (Ed), 1989

(2) Khatiz Dairy Union (KhDU)

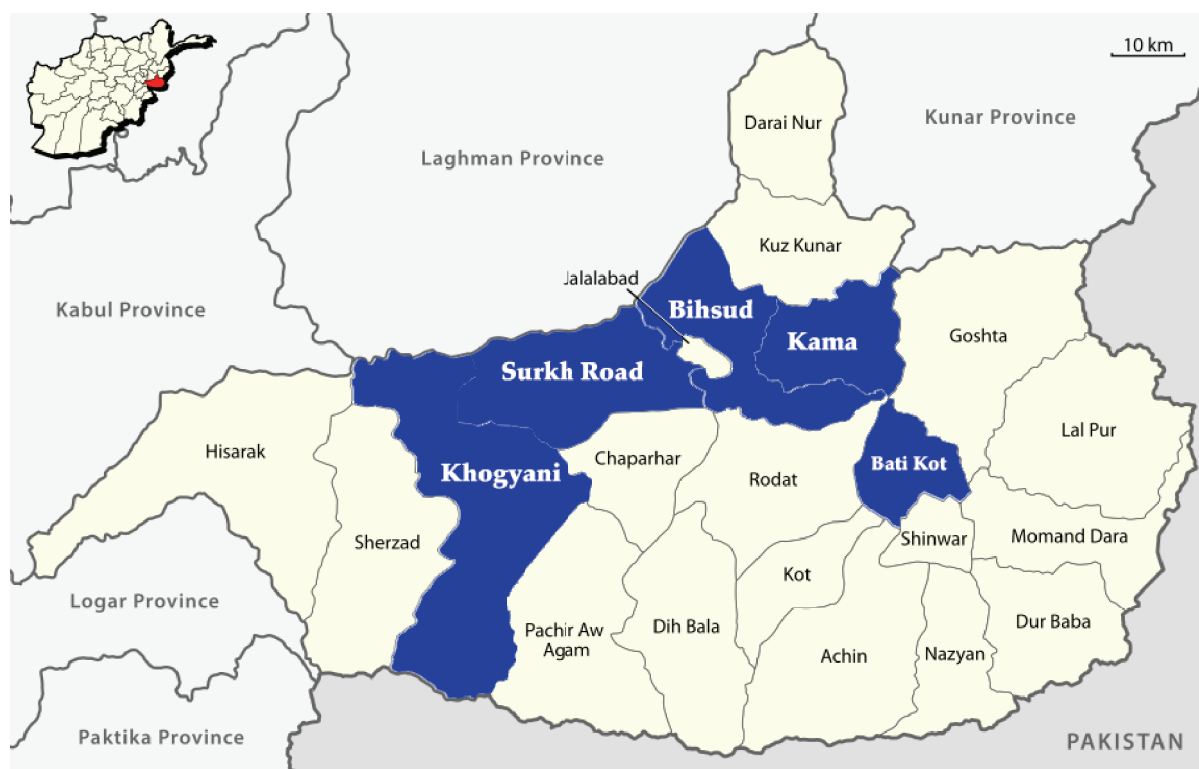
Background

The Khatiz Dairy Union (KhDU), located in Jalalabad, Nangarhar province of Afghanistan, has been set up under FAO-IFAD assistance called “Integrated Dairy Development Scheme” in 2012, and duly supported by Nangarhar Valley Development Authority (a MAIL project), which provided free land. The dairy has been in operation since the last 5 years. It is a cooperative enterprise of 18 primary milk producer cooperative societies (PMPCS) at the village level and 5 secondary milk producers’ cooperative societies at the district level. The catchment area of the KhDU extends to 18 villages of 6 districts- - *Kama, Behsud, Bhatikot, Ghani Khel, Surkh Road and Khogyani* (Figure 6.1). There are 1510 producer members of which 129 are females. All milk collection and chilling centers are equipped with chilling machines, laboratory equipment, generators, and other facilities. On 03 January, 2012, the KhDU obtained registration license from DACD.

The village elders and persons associated with the genesis of KhDU recollect that the villages felt the need to overcome difficulties in selling milk produced in small volumes on collective basis, which prepared ground for a thought towards establishing a cooperative institution. At this point, the IFAD had also decided to organize the milk producers along cooperative line and got engaged in creating village awareness program. While IFAD motivators had worked out a plan for a dairy processing plant at Jalalabad, the organization of village dairy cooperatives became necessary for supplying raw milk to the processing plant. The MAIL provided 6 *jeribs* of land to KhDU for the plant campus, free of cost⁵¹.

Figure 6. 1: Locational & Coverage Map of KhDU

⁵¹ The spontaneous remark of Mr Nabi, Chairman, KhDU in course of discussion “*all for one and one for all*” probably sums up the sentiment of all relevant people at that time.



If the above sentiment was prevalent at the ground level, when the local people of Jalalabad didn't have any dairy unit to market their milk and milk products, then there were strong economic justifications too. Jalalabad is the provincial capital town of *Nangarhar* province with a settled population of around three hundred thousand, and therefore had the potential for marketing of milk and dairy products. In addition, being geographically close to Pakistan, the local market was previously near monopolized by Nestle Pakistan, and so, there was strong demand to promote dairying through local enterprises. The agricultural economy of the terrain is rich in resource endowments- - irrigation water, grazing lands on the plateau for free grazing, diversified crop profile including fodder bearing food crops, all of which collectively provided a conducive ecosystem for livestock farming including dairying and sheep rearing.

Management of Business

The primary milk producers are paid as per the quality of milk brought to the society, which is tested through Gerber method, and a benchmark price of Afs 20 for 3% fat is paid to the producers on weekly basis after making daily entry into the individual passbook of the producers. Milk fat below 3% is not accepted. The milk collectors are paid a commission of Afs 1.3 per liter. Mostly, the region has HF cows, with fat percentages varying between 3-4%, while "*Kunari*" is locally available breed with fat percentage of around 5%, higher than HF, and therefore milk from "*Kunari*" cow receives higher price. Milk collection is organized two times a day, but sometimes, winter collection is chilled, and brought on the following day. Average price of a HF cow ranges between 30,000 to 70,000 Afs, depending on

productivity of the cow; however, a high quality cow with yield potential of around 25-30 Kgs/day, could cost as high as Afs 300,000. A typical cow yields about 5 liters a day per milking, with average retention per family is around 50% of production. Most of the activities related to dairying is done by the women, and therefore this is one activity of the family enterprise that permits most efficient utilization of women labor force while allowing them to stay within the precincts of their households.

The KhDU has a dairy processing plant of 10,000 liters/day capacity, equipped with manufacturing plants for Yogurt, Paneer, White Butter, Cheese, Cream and *Chhakka*. The processing capacity is split between 50 percent liquid milk and 50 percent dairy products respectively. Equipped with packaging plants, incubation center, cold storage facility, the entire unit is housed under one roof with an integrated production facility, while adequate physical space is available for movement of vehicles and staff office. Plant machinery and equipment are procured from Bulgaria, and they are functioning smoothly. The administrative office is located adjacent to the main processing plant. The hygiene and sanitation aspects of the plant is fairly well established. All products are manufactured under strict quality control, packed and then sold in the market. The KhDU has obtained ISO 22000:2005 certification in May 2016, which is valid for the next 3 years. According to opinion of the management of KhDU, the plant would require a homogenization plant with UHT packaging facility, a rather costly proposition, which the donor or the national government need to consider.

During last 3 years, the daily milk collection of KhDU has shown a steady growth- -from 800-1000 kg in 2015, to about 2000 kg in 2016 to about 2500-3000 kg in 2017. Presently, the collection level is around 2500 kg per day, a drop of around 1000 kg from the peak procurement. The management of the Union however is optimistic of growth in procurement provided the unit can be better managed and some unresolved issues are sorted out. Milk procurement generally drops during winter months due to cold condition. Chairman KhDU feels that milk collection from the primary cooperatives would increase in future once the completion of registration process of some cooperatives is sorted out. It was revealed in course of field investigation that the procurement remained static for the last 3 years, though the Union has the potential to increase procurement.

Currently, liquid milk sale is suspended due to low demand, and the KhDU faces issues relating to marketing of dairy products. In general, demand for liquid milk drops during winter months, while collection rises to more than 4000 kg a day. The surplus milk is utilized for manufacturing of *paneer*/cheese during winter season.

Marketing of liquid milk and dairy products are organized through 4 KhDU stores, operated on commission basis, besides two mobile vehicles to cover certain locations of Jalalabad city. Though the

officials feel that the market potential could rise to about 8,000 liters a day, they are unable to position their products at vantage locations of the city. Though several representations are made to Jalalabad Municipality for providing space for setting up of milk booths, yet no positive response is received. KhDU faces tough competition from dairy products of Pakistan and Iran, especially from Nestle Pakistan, which has a stronger market share, and by virtue of their products with superior packaging and longer shelf-life, their products are placed at an advantageous position vis-à-vis KhDU's. However, even though product quality of the domestic products are exceptionally good, this domestic enterprise is unable to match the might of the multinational company.

During January-August 2017, the Union made operational profit of Afs 1618 thousand and a net profit of Afs 173 thousand. The Chairman of KhDU felt that while the KhDU prepares its business plan, the village cooperatives are ill equipped to prepare business plans. The total capital of the Union is Afs 1.7 million. They have account with Afghanistan National Bank. Besides, the amount of 6.5 million USD that it received from IFAD, no other monetary assistance has been received by them. However, IFAD has included KhDU under Phase II of their program titled "SNAAP II", and under this program, member awareness program is being conducted in the cooperative villages. Preparation of business plan is however a cumbersome process, and would require simplification- - a candid view expressed by the Chairman.

Establishment of feed mixing plant is another milestone the KhDU has achieved to supply nutritional feed to the member producers at a price that is competitive and available in their villages, a facility that is normally difficult in the village ecosystem of Afghanistan. Animal feed plant has capacity of 12 Mt per day and the feed is sold to members, traders, NGOs and even non-members and private companies. The cattle feed price of member is Afs 20 per kg while for a non-member it is Afs 21 per kg. Production of high quality fodder seed which is sold to member producers and others, NGOs and private companies, organizing training programs for better utilization of fodder crops, and supplying concentrated feed and hay are some of the other activities that the Union has been pursuing to benefit the farmers. The dairy also arranges commercial production and marketing of concentrate and mineral feeds through various schemes of the Government.

The animal health care and breeding services are supervised by the veterinary doctors, while the semen doses are supplied by the MAIL. Alongside, natural service is also prevalent. Under veterinary care, monitoring and control of the dairy cattle of the farmer members for zoonosis disease, vaccination service, monitoring pregnancy performance of the cattle – all these are performed. Men and women farmers are trained on animal health and AI; hygienic milk production for members, especially among

the women members, is another important activity that the Union has been performing throughout its milk shed areas.

Governance

The Union has constituted Cooperative Executive and Monitoring Committees at the primary level as well as at the secondary level, besides constituting Board of Directors and Supervisory Board.

With the holding of regular meetings of these office bearers and General Assembly, the Union maintains a regular contact with the members and also nurture the process of leadership building at various levels. Further, the Union is striving to strengthen the financial discipline through providing full financial and operational responsibility to the management, and monitoring the same through a proper structure.

Role of foreign aid

IFAD-FAO assistance to KhDU has been of extraordinary help to the Union. More than one thousand and five hundred milk producers' - many of them women - economic interest and incomes are associated with this unit. The future potential of this unit is strong. IFAD has also covered KhDU under the second phase of the program, providing back up support to the dairy farmer members. The management committee is well poised for a steady growth, but since share capital contribution is relatively modest, the unit does not have the capacity to undertake new investment proposal. This is a critical issue and the FAO-IFAD needs to consider further infusion of capital investment to enhance sustainability of KhDU.

Constraints of the organization

The major issue confronting the dairy sector is the levy of 4% Business Receipt Tax (BRT) on the primary cooperatives, which is passed on to the members across the board - an impediment for the members, when viewed in relation to the option of selling milk locally. The management of the Union also indicated that they are under 4% BRT at the Union level. The issue of taxation is a national issue for the cooperatives, which requires continuous advocacy and follow up on the part of DACD/MAIL at appropriate forum so that the cooperatives are exempted from the BTR, as this tax creates unfair competition, as in most developing countries, where private traders with very little accountability due to poor law enforcement, especially for them, often bypasses such taxes. Providing a level playing field, as ILO Guidelines have pleaded, either through uniform enforcement or through uniform exemption is a responsibility of each government.

Electricity tariff is another issue. The electricity tariff imposed on the Union is Afs 12 per unit, while other enterprises under Ministry of Commerce & Industries (MoCI) license pay Afs 6 per unit. This is another disadvantage faced by the Union. Apparently, registration certificate of DACD is not weighed

by the MoCI, while granting permission of concessional power tariff, which is an anomaly. MAIL has to take up this matter with the MoCI so that the union is treated at par with other units registered under MoCI.

While the KhDU has optimistic view on the market potential, evaluating future needs to strengthen the unit, finance is a major problem. Either the donor needs to consider providing capital grant for further investment or the Government will have to extend helping hand to this unit considering the fact that a number of small and landless farmers' economic interest and well-being are associated with smooth functioning of this cooperative dairy union.

The Union requires investment in homogenization plant, higher shelf-life packaging unit and in cold chain facilities up to the consumer point. They do not have the capacity to mobilize resources. This is another area where a favorable one time capital grant.

There is shortage of semen doses for AI, and MAIL will need to augment semen production capacities so that the milk unions are in a position to increase coverage of AI in the milk shed area.

(3) *Qura Baghi Robat Cooperative (QBRC)*

Background

The Qura Baghi Robat Cooperative (QBRC) located some 120 km away from Kabul is an old cooperative, established more than 40 years ago, which carries some history that are associated with the political upheaval that the Islamic Republic of Afghanistan has run through. Established as an institution that would guarantee purchase of grapes from its producers, prior to Russian invasion to Afghanistan, it had developed export linkage with the undivided Russian republic for export of grapes. While on export voyage, the local producers used to bring goods and services and also import new technology from industrially developed country of Russia, they used to apply them to benefit agricultural production in the catchment areas of QBRC. At that time, incomes from the cooperatives were not taxed. Thus QBRC had its hay day during this period. It used to deal with soya bean, wheat and grapes until 1980, when the institution had closed down due to whims of the then political regime. Some elders associated with this cooperative recount that during Dr Najibullah's regime, the then President of Afghanistan, the cooperatives were allegedly used for political purposes, not liked by the local leaders, and thus had to be closed down. Due to political turmoil and uncertainty, the institution remained inoperative until 2001, and after the transition government came to power, it was re-established. During 2011, it was registered with the DACD. The QBRC had to be closed down again in 2013 due to tax burden (4% BRT plus 20% tax on profit). During the end of 2016, under the aegis of

Horticulture Cooperative Development Project (HCDP), the QBRC again got registered this time with the DACD, and re-started its business in grape.

The QBRC has not been successful in serving their members on a sustainable basis, primarily due to external political factors as well as government fiscal pressure through taxation, as maintained by the present Chairman, Mr Hazi Abdul Qahir. While during its hay day the QBRC had 400-500 active members, dealing with multiple commodities, presently there are only 48 members and dealing with only a single commodity – namely, grape. These members are from Dasht Robat, Qarabaghi Robat, Qalah Nasro, Panj Qalah and Qalah Hajian villages of Bagram District, all located within an average radius of 3 km of the cooperative HQ. The reduced operation can also be viewed from the fact that while there are estimated 23,000 grape producers in Bagram district, only 5 grape producers' cooperatives have so far been organized in the district. It may be noted that Bagram district of Parwan Province in Afghanistan is world famous for production of quality grape.

The QBRC has its own building, but presently operates from a seed processing company, which is working as an Association registered under the Ministry of Justice, promoted by FAO and located nearby the old building.

Management of Business

Grape is a perennial crop, harvested during August to October, and is grown in abundance in this region. About 10 types of grapes are grown in this sub-region, and they are broadly categorized into Kismishi, Shongalkhani and Taifi (red type) varieties for trading purpose. The Taifi variety is mostly locally consumed. Generally, type A of the first two varieties is purchased by large traders, and other two lower grade varieties are largely used in Kismish making.

Typically, grape output is estimated at 5300 kgs per 2 jeribs (1 Jerib=2000 Sq. Meter) of land. About 500 plants are nurtured per 2 jeribs. There are 48 members attached with this cooperative. Typically, about 2 jeribs of land per member is registered as per the record of the cooperative. However, in course of discussions, it was found that the grape producers have much larger area under grape cultivation, while for sake of record with the cooperative, 2 jeribs on average per member are shown. Some of the producers have about 20 jeribs under grape crop. This means that member dependence on the cooperative is limited, only to make sure that the cooperative continues its business. It appears that the members are not so sure about the cooperative's prospects and therefore they want to keep their options open. Unlike the dairy unions (Kabul and Khattiz), here the stakes of the members on the cooperative is not exclusive.

The QBRC does not purchase any grape from its members directly, nor does it sell directly to outsiders.

It operates as a platform to establish contacts between grape producers and large traders, and engage in negotiating deals between them on behalf of the producers. After the deal is struck, the traders arrive at the grape vine site of the members and take delivery of the produce. Cost towards transport and lifting into the truck are borne by the traders. The members also collect payment from the traders directly, and it does not get routed through the cooperative. However, the quantity of deal is communicated to the cooperative for record and commission. The cooperative earns a commission of Afs 200 per tonne. At the time of writing the dissertation, it is found that the cooperative has garnered a business of Afs 2.8 million during 2017 (January-September), and the volume is expected to rise, once businesses of October- December is taken into account. There is no other source of earning of this cooperative at this stage. So, the cooperative is thus reaping the economies of scale in negotiation for itself as well as its members.

Engagement of QBRC in grape business is limited. The market price of grape is controlled by the large traders. However, some persons engaged in this trade say that the grape prices vary depending on the development at the export front. If the export of grape continues with Pakistan and India, the market prices remain steady, and vice-versa. However, if export to Pakistan is uncertain due to external factors, then there are issues relating to domestic price, which affect the farmers down the line. Traders also suggest that Indian export market has to be harnessed more forthrightly should the incomes of the farmers have to be guaranteed from grape production. There have been occasions when transportation inside Pakistan, due to internal reasons, has caused delay in delivery at destination and loss to the value chain, including the primary producers, who suffer the most.

The need for development of value chain in grape trade therefore need not be over emphasized. For sake of record, it is found that the cooperative does not have any cold storage, processing plant and does not have any provision for supply of inputs. However, the average grape farmers are economically sound, and have the abilities to organize inputs and necessary care for the upkeep of their plants.

Governance

The governance structure of the QBRC is well placed. The Board of Directors has 5 elected members while the Supervisory Board has 3 members. The cooperative has convened its Board of Directors and General Assembly Meetings on time, and the resolutions thereof as well as all documents are countersigned and duly entered in the book of record. There is no employee on the pay roll of the cooperative, but the BOD and the Supervisory Board members manage the business and keep books of accounts. The BODs and the Supervisory Board members manage the QBRC business voluntarily. So, there is no distinction in functioning between BOD and the Management, the latter being non-existent.

It is difficult to appreciate in this situation the need for existence of a separate Supervisory Board.

The provincial DACD office (Manger DACD and his team) maintains good contact with QBRC, and there appears to be clarity in the preparation of Business Plan. As the QBRC uses the infrastructure of a Seed Processing Plant which has their technical manpower, submission of Business Plan to DACD and getting subsequent approval do not appear to be any matter of worry for this cooperative.

All members have paid their contributions of Afs 3000 each, which are deposited in the cooperative's bank account. The members also pay Afs 50 per year as membership fee, which is also deposited in the bank account. If this cooperative doesn't have any business now, nor any future business plan, other than facilitating individual members' sale to traders through a collective negotiation process, one wonders the utility and productive use of the members' contributions.

Role of Foreign Aid

HCDP has become the principal motivator to revive this cooperative. HCDP is engaged in organizing training and awareness program and especially in imparting training on scientific method of grape farming. The major areas in which the HCDP has been concentrating now are: providing technical knowhow on trellising system of grape farming and involving them in training and capacity building programs. The HCDP has also organized overseas training and capacity building of some of the Board members and progressive farmers, besides providing two mopeds. Cooperative visits to India and France have also been organized.

The catchment area of the cooperative has the beneficial presence of a plurality of donor funded projects. They are from CLAP, RLMSP, CARD F, ON FARM, UNFAO etc. Many of these donors have been implementing development projects which cover the catchment areas, favoring the grape growers directly or indirectly. This has resulted in high degree of awareness among the growers and also superior knowhow in agriculture and farming operations, thus improving the incomes of average farmers. But a hardcore cooperative producers' organization seems missing.

As HCDP expects extension of projects from AFD, it is important that the requirement of this cooperative be kept in mind for providing grants to create infrastructural facilities for processing of grapes so that the involvement of the grape producers becomes inclusive and the QBRC plays a part in creating value addition for its producer-members.

Constraints of the organization

In its present scale of operation and producer engagement, the operation of the QBRC is limited. They are not in a position to ensure higher price for the producers, as the volume transacted is low. Moreover,

the grape trade is dominated by the large traders, who with their superior bargaining power generally control the trade. Market price of grape is not stable, due to conditions that prevail in external trade market. However, the farmers have greater potential to increase their stakes with QBRC, provided there are opportunities for development of value chain in the grape trade.

The opportunities for grape processing facilities and marketing of Kismish by the cooperatives hold higher promise for the grape grower. If the relative return of the farmers could be influenced through creation of processing infrastructure and marketing, the prospect for growth of QBRC would be significantly better. The BOD members seem to be in the habit of nurturing expectations that some benevolent donor could consider this cooperative for providing processing facilities so that they could increase their engagement with the growers and emerge as a good cooperative business model. True, further mobilization of resources from the farmers could be relatively easy if some seed capital grant is available to the cooperative for their future business in value chain development, but one wonders why it could not be the other way around – that is, mobilizing own funds and then looking for complementary or matching grants!

The BR Tax (4%) and taxation on Profit (20%) hinder growth of cooperative business in general. The grape growers, who are not members of the cooperative, circumvent BRT tax by directly dealing with the traders, a view unequivocally shared during the study. In a situation where no value addition takes place, and the cooperative acts as an intermediate with no access to direct markets, BRT acts as deterrent for cooperative business. The DACD needs to take this matter at the appropriate forum of the Government and build up advocacy and representation, and continuously follow up the matter with the Ministry of Finance to get BRT waiver for the cooperatives.

(4) *Green Turkman Agriculture Cooperative (GTAC)*

Background

Located in Jafar khel village of Bagrum district, Parwan province, the cooperative was registered in 2012 with the DACD with a total number of 180 members out of which 50 were women members. The catchment area of the cooperative is spread over the villages of Jafar Khel, Bakshi Khel and Turkman with a combined population of around 2000. Most habitants of these villages are from the Tajik tribe. The Chairman of the cooperative is an influential person with considerable social and economic clout. His business interest spreads over the local places besides the capital city of Kabul. Chairman has visited many European countries including India and got impressed with the progress of cooperative development in those countries. He was motivated by his exposure visit and then he decided to organize one agriculture cooperative in his village.

The main objective of the cooperatives was to organize marketing of grape, saffron and vegetable crops. This was the first registered agricultural cooperative which obtained license from under the Ministry of Commerce for export of grape and saffron. The cooperative is also an affiliate of a secondary cooperative located at Do-Saraka-Bagrum for supply of seeds, fertilizers, and agricultural machineries.

Business

The cooperative has so far exported about 3 kgs of saffron to Canada at a value of 73,000 USD in 2016. It is learnt that the cooperative had initiated grading, sorting and packing of grape harvest for Pakistan market, but the efforts did not materialize due to sudden increase in export duty.

Governance

All formalities relating to BOD, Supervisory Board, General Assembly meetings and their minutes are maintained by the cooperative. List of members and their individual consent to join the cooperative are properly documented and preserved. The cooperative maintains ledger and cash book and other records. The cooperative has also prepared its bye-laws. The members have contributed Afs 200 towards membership fee and Afs 3500 towards share capital contribution, and in total, it has mobilized a sum of Afs 630,000, which has been deposited in National Bank of Afghanistan.

The cooperative had organized its first general assembly meeting in 2012. The disputes, if any, are first referred to the BOD for settlement. If the issues continue further, they are referred in the General Assembly for settlement. For any further query, the issues are referred to the provincial DACD. For the members of the cooperative, DACD has organized technical training to increase agricultural production. Similarly, for the BOD it has organized training program on cooperative management and finance. The profit from the sale proceeds of saffron has been distributed among the members on equitable basis, as informed by the Chairman.

The Chairman is optimistic to strengthen the cooperative business by establishing a poultry farm and a nursery for enhancing saffron production. It is requesting the government to allot about 200 ha of land for this purpose on long term lease.

Constraints of the organization

On the positive side, the leadership of this cooperative seems strong and has the foresight to take the business forward if the necessary support from the government is forthcoming. It appears that the leadership is not dependent on foreign donors (as it has none, nor does it look for foreign donors) for their own business promotion. The leadership seems to have the knowledge about the market prospect of grape, saffron and other agricultural products.

But it is yet to conduct production, though it has exported saffron only on the basis of purchase from

elsewhere at favorable price, thus giving its members a taste of profit through business. So, basic ingredients for a producers' cooperative like member production, patronage, participation in the organizational processes seem to be missing, though the leadership seems quite enlightened. But there is sufficient awareness and participation by the general members, one strong leader can as well take this collective body for a ride.

(5) *Baba Qushquar Cooperative (BQC)*

Background

Located in Mir Bachakut district of Kabul province, the cooperative was registered in 2008 with the DACD with a total membership of 218. The cooperative is named after the village of Baba Qushquar, some 25 km away from capital city of Kabul. The village is fairly large in size with majority of the tribes belonging to Sayed, Afraz, Bakhshend, Jamal and Hatkeel categories. The estimated population of the village is about 6000. The Chairman of the society belongs to Sayed tribe, who enjoys considerable clout in the village, and has been known as an enlightened family in the society. The main mosque of the village is named after his grandfather.

The objective of the cooperatives was to organize marketing of grape and to affiliate this cooperative with a secondary cooperative located at Kabul for arranging supplies of fertilizers, agro chemicals and agricultural machineries to meet farmer needs. Somehow, none of the objectives is so far fulfilled, as the cooperative did not initiate any economic activity since inception. However, they have a valid reason to narrate their side of the story for not being able to commence any business operation benefitting their members.

The cooperative had obtained a valid registration from DACD, but could not submit balance sheet and profit and loss account to Ministry of Finance (MoF) for 9 years. As a result, they are penalized @ Afs 10,000 per year, and ultimately ended up paying Afs 90,000 as penalty for non-submission of account statement. According to the Chairman, this penalty demoralized their intent to organize the cooperative. They have since remained a symbolic cooperative only in the official document of DACD, and as late as last year they have snapped association with DACD, though it is still known as a cooperative.

Potential for cooperative business

As the region falls within the heartland of grape growing area of Afghanistan with good connectivity with the main market center of Kabul, the potential for cooperative business is high. Presently, the grape traders provide advances to the growers on average Afs 30,000 per jerib of grape vine area and enter into advance contracting with the growers for lifting their harvests. An average Afs 150,000 is realized

per jerib of vine area, which is the principal cash crop, used for meeting family expenses as well as for meeting expenditure of other agricultural purposes. The grape prices vary depending on ease of doing business with Pakistan. The grape growers of the village are well versed with the grape trade and feel that the Afghan farmers do not get a fair deal from the local traders. They are even aware of the fact that Pakistan has doubled custom duty of Afghan grape from this year, and they also repack Afghan grape in their country and sale in Dubai under their own brand. While Pakistani traders earn huge profit, the local growers do not get a fair deal in their transaction with the local traders. While they realize the potential opportunity that could unfold if they could organize a cooperative and take command of the grape trade in their dealings with the local as well as Pakistani traders, they appear to be inertia among them to organize the cooperative into an effective form of business.

Governance

All formalities relating to BoD, Supervisory Board, General Assembly meetings and their minutes are maintained by the cooperative. List of members and their consent for joining the cooperatives are properly maintained. The cooperative had also prepared its bye-laws. The members have contributed Afs 150 towards membership fee and Afs 500 towards share capital contribution, and in total the cooperative has mobilized a sum of Afs 141,700, which was deposited in National Bank of Afghanistan. However, currently, the share capital deposit with the bank has reduced to some Afs 20,000, since the total share capital contribution has been used to pay for the penalty, and meeting other incidental expenses, which was also approved by the General Assembly.

The social composition of the BOD and Supervisory Board as also of the members are found to be heterogeneous. However, the members are aware of the penalty imposed on them, and continued their trusts with the Chairman and BODs. From this count, the Board was found to be commanding respect in this rural society, though the cooperative could not initiate any worthwhile economic activity. Moreover, the Chairman of the cooperative occupies exalted status in the village and also in the regional society, so the potential for re-organizing the cooperative is fairly good, though they seem to be expecting some external donor to give to them some financial support, which they want to enjoy by playing the role of a mentor. So, they simply lack any meaningful Business Development Plan.

The availability of some grant from the donor is the hope they are nurturing in their mind, probably a legacy issue, though this cooperative has never received any assistance. They are willing to be organized under an external donor, and even prepared to repay the loan or even grant from their potential profit of grape trade. Therefore, the willingness seems to be positive, so are also their experiences and understanding of the trade related issues, but they look for a mentor to take them through their wishes.

This is one role that DACD needs to bridge to educate farmers to follow cooperative way of doing business.

The HCDP officials have made several visits to this village and have promised to make small transport facilities available to the cooperative for transporting grape, but somehow their efforts in organizing the cooperative has not been strong enough.

Section 6.3: Synthesis of the Case Studies in the light of the Main Themes of this Dissertation

The four (the 5th case not ranked, as it became defunct) case study units have been ranked on the basis of key indicators like size of membership, service to members, governance, foreign aid and management & administration, besides an overall grade. Using a 5-point scale with excellent being ranked 5 and poor being ranked 1, the following matrix (Table 6.1) is prepared. Within these 5 major parameters, sub indicators have been developed and ranked on the basis of ground zero situation. These sub –indicator ranks are then laterally aggregated to arrive at the composite rank. These composite ranks have been divided by 5 to arrive at the average score of the coop. In Table 6.2, description of the sub-indicators and their ranking value are presented.

It would be worthwhile to observe that on the whole the cooperatives have attained a moderate scale of 2-3 in many of the indicators, which signifies that the present status of the cooperatives is somehow moderate to low, and there is room for immense improvement in all dimensions.

On the size of membership, it is found that the member coverage is relatively large in KhDU, spread over 18 villages of 5 districts, though its volume of contribution in milk is not proportionately large. The BOD members have however plausible explanations that some of the village cooperatives are yet to complete registration formalities and thus to be brought under the coverage of milk collection to augment supplies. KDU also confronted similar issues, but their potential appeared larger due to proximity to the Kabul market. However, qualitatively, the milk collection mechanism is superior in case of KhDU. The QBRC member size is small in size, and their prospect for larger engagement depended on the institutional ability to upscale business operations. It also appeared that fresh grape trade is controlled by a handful of large operators who have the power to influence the market, and the cooperative appeared to be contended with the present scale of operation, while it is expecting some benevolent donor would assist them in creating processing infrastructure.

Service delivery to the cooperative members is found to be reasonably well in case of KhDU, moderately so in KDU, while QBSC hasn't developed any capability other than contacting and negotiating with traders for selling the members' produce. Although QBSC claims there's no room for

providing backward linkage services to members in its highly NGO-intensive operational area, the farmers are simply left to the mercy of the traders with regard to forward-linkage services. Apparently being pampered by the exposure visits and capacity building trainings of foreign aid, their expectation from and dependence on foreign aid has soared so high that they seem to be shying away from building up processing facilities on their own, forgetting the fundamental principle of self-help of cooperatives. In the last two apparently failed cooperatives, there is hardly any service provided to the members; in both the cases smart leaders have managed to keep the members together along with their cooperatives – in the former (GTAC), by buying cheap and selling dear some quantity of saffron and distributing the surplus among members, while in the latter (BQC), by clearing huge penalty for non-compliance imposed on them by the Ministry of Finance from member-raised funds.

All these five cooperatives visited have their BODs, Supervisory Board to tackle oversight, and convened their General Assembly meetings and record keeping. The payment made to the milk producers is found to be transparent on the basis of intrinsic quality of milk tested. The BODs are found to be doing the job of professionals, particularly that of the CEOs, while some service oriented tasks are delegated to the technical people only in case of the two dairy units. Non-existence of professional managers and management staff distinct from the BODs appears to be a serious lacuna, which undermines the enterprise aspect including future prospects of these cooperative organizations. Performing the managerial function demands professional skills, which can't be left to the BODs formed by elected members, where awareness, skill and even literacy levels are too low, in general. Constitution of another Supervisory Board out of the same member base to oversee the operations appears at best superfluous and wastage of energy, if it is not aimed at justifying elite capture of these organizations.

Out of the five cooperatives visited, three are supported by donors. The donors have been supporting them in various ways - - investments in plants and machineries, arranging technical support, training and capacity building for use of plants and machineries, extension, institution building, and in providing motivational training. Donor intervention in the day to day management and decision making did not appear to be a limitation; however, some BOD members told the field study team that the donor representative attends the general assembly meetings. However, donor support too seems to be drying up lately, while the BODs remain critically dependent and strongly demand continuation and even stepping up of such assistance. However, the two dairy unions covered in the preceding section have received good assistance from the Government of Afghanistan – especially, in the form of land to build up dairy infrastructure.

Table 6. 1: Ranking of Cooperatives according to Five Key Parameters

ENTERPRISE	MEMBERSHIP SIZE	SERVICES TO MEMBERS	GOVERNANCE	MANAGEMENT	FOREIGN AID	OVERALL RANKING*
KABUL DAIRY UNION	5	2	2	2	3	2.8
KHATIZ DAIRY UNION	5	2	3	2	3	3.0
QURA BAGHI ROBAT COOP	1	1	1	1	1	1.0
GREEN TURKMAN AGRI COOP	1	1	2	1	1	1.2

Note: Overall ranking is simple average of the five parameter values.

Table 6. 2: Various sub-Indicators prepared and ranked for composite ranking of the Coop

Size of Membership	Services to Members	Governance	Management	Foreign Aid
Up to 200 Members	Only Forward linkage provided	General Assembly constituted	Chairman functions as CEO	Received aid assistance in the form of Intangible
1	1	1	1	1
201-400 Members	Forward plus backward linkage	General Assembly meetings held	CEO plus Technical Staff are appointed from the BODs	Received Financial & Technical Guidance
2	2	2	2	2
401-600 Members	Forward plus background plus credit facility	General Assembly meeting plus Annual Report printed	CEO is a professional	Received Financial, Technical & Management support
3	3	3	3	3
601-800 Members	Forward plus background plus credit and scientific knowledge	General Assembly plus Annual Report plus training and education of the BODs	CEO and Technical staff are professionals	Technically strengthened but financially not so
4	4	4	4	4
More than 800 members	Forward and backward integration with non- credit services	General Assembly plus annual Report plus acquiring Scientific Knowledge	BODs & Executives are independent	Financially Sustainable
5	5	5	5	5

Section 6.4: Tabular Analysis of Primary Data on Governance & Related Features of Sample Units

As mentioned earlier, this section attempts to display in simple tabular format the scanty amount of primary data collected from a small sample, which too couldn't be drawn using any rigorous sampling design. Even though no stone was left unturned to solicit comprehensive data and information from the available members and BOD members (Annexures 6.2 and 6.3, respectively, display the structured questionnaires used for this purpose), clear and full-fledged response was hardly available. In spite of this serious lacuna, this data set probably provides the first baseline information about the cooperative members and the BODs to understand the situation at the ground zero level. In spite of all above-mentioned weaknesses, this baseline information become a benchmark for the Afghan agricultural cooperatives at this stage.

The contents of these baseline information are broadly the respondents' personal attribute related, status in cooperatives, their purpose of joining, participation in General Assembly, contribution to share capital, the decision making process, their satisfaction with the cooperatives etc. This information's would thus provide ideas on the perception of these two types of members (general and Board members) about their cooperatives and their suggestions for improvement.

Profile of general members

In Table 6.3, highlights of the general profile of the coop members have been provided through statistical data collated through the primary survey of the members, the methodology of which has been discussed in Chapter 3. Altogether, 16 parameters have been constructed to explain the general characteristics of the coop members which include their intangible attribute, years of membership, capital contribution, land ownership, crop profile, participation in the general assembly, issues raised in the assembly, information about any training received from the coop, their satisfaction from the engagement of the BODs and expectations from the coops. As mentioned earlier, no benchmarking of the coop members has not been done in Afghanistan. From this standpoint, the simple analytics that are compiled here provide a thorough account of the same, which can as well be monitored from time to time to assess the situational changes, if any. In addition, the present analysis also reveals the overall knowledge, attitude and practices that are followed by the coop members having relations with the hypotheses of the research besides providing insights into the engagement of the members.

The study finds that 45% of the members have studied up to Class XII and above (higher education), while 41% have just reached up to Class XII. Only 5% of the members are illiterates. More than half of the members are associated with the cooperatives as ordinary members, while 40% are presently serving

as BODs. About 20% of the members are found to have contributed less than Afs 1000, while another 23% have contributed Afs 1000-3000 to cooperative capital share. Only 18% of the cooperative members have invested in excess of Afs 5000 per member. It is surprising that 40% of the members could not recollect their capital contribution to the cooperatives, possibly because of their low education and awareness. The analysis shows that the average monetary contribution of the members in the coop is low, which can only be explained as having low stakes with the coop. A low stake is again a function of low level of dependence on the coop by its members.

The cooperative members have small land holding as 50% of them have less than 5 *Jeribs* (1 *Jerib*=2000 Sq. Meter) of operated land (owned plus leased in). Only 15% of the members own land exceeding 15 *Jeribs*. More than 60% of the members own less than 10 *Jeribs* of land. The crop profiles of the members are similar to that of the country. Half of the members grow cereal crops (mostly wheat), followed by fruit crops (15%) and potato (10%). Regarding material services offered by the cooperatives, it is found that the members have received seeds, fertilizers, agro- chemicals, machinery and young layers.

In as much as training related services are concerned, the members said that some 36% of them have received some training while 64% have not received any training. In matters relating to General Assembly, the cooperative members are largely aware of the General Assembly (95%) and an equal proportion of members is found to attend the General Assembly meetings. About 40% members who attended the General Assembly meeting did not have any issue to raise in the General Assembly and about 60% have raised some issue in the last General Assembly meeting. The members have raised various issues related to agricultural cooperatives and they are largely related to marketing (33%) and new cooperative guidelines (30%). Animal disease related issue is also an important point that the members have inquired about (12%) in the General Assembly. Some 73% of the members feel that General Assembly issues are implemented, while the rest (27%) do not hold such opinion.

Decision making in the cooperative business is another point that was inquired of the members with the purpose of finding out the main actors in the hierarchy of decision making process. About 64% of the members have reported to be receiving their payments from the cooperative on time while the rest have some issues relating to untimely receipt of payment. More than 90% of the members have reported to be facing problems with the BODs. This is an important feedback which could suggest that BODs are not necessarily responsive to their members.

Regarding the members' expectations on various services from their cooperatives, more than 50% expect funding support from their cooperatives. This is not surprising in view of the fact that in Afghanistan availability of agricultural finance is the most critical hindrance at this moment. This

problem has been compounded consequent on the closure of the Afghanistan Agriculture Development Bank, and there is no institutional agency for providing finance to the farmers. Access to market is another difficulty flagged by the members (18%).

The cooperatives seem to be organizing some training to their members as about 86% reported that they have attended the same. This is possible as many cooperatives are donor assisted and as per the action plan of the donor, training and sensitization among the members is one of the key action areas they have chosen. Since no time period is mentioned while asking this question, it may be possible that these responses are general in nature and not related to any specific time frame.

The sample survey results are broadly in conformity with the scenario that is prevalent in the rural areas of Afghanistan, where basic education level is low with low economic endowment to support their livelihoods, which does not motivate them to show higher stake holding in the coop. The coops are also not in a position to offer any special services to their members which could motivate them to continue their business transaction with the coops. But from the members' perspective they feel that coop should address their marketing issues as they do not always have credible access to dependable market channel to sell their produces. The remoteness of the villages and with limited access to markets, provisions of agriculture inputs for the members also assume significance and the members come out of their expectations from the coop when a free opinion was sought.

Table 6. 3: Profile of Coop members

Sr No	Indicators	Value (%)	Sr No	Indicators	Value (%)
1	Education level		9	Attend GA Meeting	
	Illiterate	5		Yes	95
	Primary	9		No	5
	Secondary	41		Total	100
	Higher Secondary	45	10	Any issue raised in GA	
	Total	100		Yes	59
2	Status of Coop members			No	41
	As members	55		Total	100
	As BOD	40	11	Specific issues Raised in GA	

Sr No	Indicators	Value (%)	Sr No	Indicators	Value (%)
	No response	5		Tax	4
	Total	100		New Coop Law	30
3	Share Capital contribution (in Afs)			Marketing	33
	< 1000 Afs	18		Animal Disease	12
	1001-3000	23		Donor related	3
	3001-5000	18		No response	18
	➤ 5000	41		Total	100
	Total	100	12	Implementing GA Decision	
4	Average Land holding of Agril land (Jeribs)			Yes	73
	< 5 Jeribs	50		No	27
	5-10 Jeribs	12		Total	100
	10-15 Jeribs	22	13	Decision making in Coop	
	➤ 15 Jeribs	16		Collectively	50
	Total	100		Individually	9
5	Cropping Pattern			Director	14
	Cereal	52		Management Committee	27
	Potato	10		Total	100
	Cotton	8	14	Payment received on time	
	Orchard	15		Yes	64
	Vegetables	4		No	18
	Others	11		No response	18
	Total	100		Total	100

Sr No	Indicators	Value (%)	Sr No	Indicators	Value (%)
6	Services offered		15	Problem faced with BODs	
	Fertilizer	11		Yes	91
	Seed	29		No	9
	Chemicals	14		Total	100
	Machinery	15	16	Expectation of services to be received from Coop	
	Layers	7		Finance	57
	Bee Keeping tool	3		Market	18
	No Response	21		Tools & Equipment	7
	Total	100		No Response	18
7	Training Received			Total	100
	Some Training	36			
	No Training	64			
	Total	100			
8	Knowledge about General Assembly				
	Yes	95			
	No	5			
	Total	100			

Note: Higher secondary has been referred as Class XII pass; Secondary refers to Class Vi- IX, Primary refers to Class I-VI

Profile of Board Members

In this section, profile of the BOD members have been discussed in respect of year of establishment of

the cooperatives, characteristics of commodities being dealt with, sources of mobilization of capital, weightage of support from various donor agencies, age profile of the BOD members, their education level, share capital size of the cooperatives, status of by-laws, their awareness about and ability to prepare Business Plan, their knowledge and awareness of General Assembly, Board Meetings, account and audit status of the cooperative etc. Simple tabular analyses of these points is expected to provide t preliminary knowledge about the baseline situation of BOD members' awareness, rights and responsibilities vis-à-vis their cooperatives.

The analysis of data by year of establishment of the cooperatives indicate that more than half of the cooperatives are established more than 5 years ago, and another 20% are established within the last 3-5 years. The agriculture cooperatives therefore appear to have gained moderate to long experiences in the cooperative business. In as much as commodity profile is concerned, 30% of the cooperatives deal with horticulture products, 21% is associated with animal meat and milk, poultry and bee keeping account for 9% share each. Cotton cooperatives have 13% share in the commodity basket.

It would be interesting to appreciate the responses put forward by the BODs in matters related to sources of finance tapped by the cooperatives. It is found that the cooperatives of Afghanistan have received capital from multiple sources like members' equity, donor and Government. About 42% of the cooperatives have mobilized capital from cooperative members, donor and government, while 32% have been mobilized capital from members plus donors. It is therefore observed that exclusive member driven agriculture cooperatives are limited to only one-fifth of these cases.

The profile of the donors provides a diversified list. All of them are external donors. It is possible that a single cooperative has received donor support from multiple donor agencies. It works in this manner, as explained by some donors. The donors may have interests in different components of the cooperative business plans, say, for example, one donor makes investment in plants, machinery and equipment, while another donor could assist in collective activities, institutional building, education, training and capacity building. It is possible that after tenure of a specific donor is completed, the same cooperative could be considered by another donor, and this way the donor assistance is continued. In addition, the donor funded cooperatives could also be benefitted from multilateral donor assisted national projects, which are more generic in nature. Sometimes, the coop are used by government and local self- help department of the government to implement specific activities of their department leveraging on the institutional presence and ground level activities.

The age profile of the BOD members seems to be evenly distributed in the sense that there are younger BOD members with average age less than 30 years of age (13%), middle aged members with age bracket

30-50 years (41%), and about 15% in the higher age bracket. This may reflect interests of the relatively younger group of people in managing cooperative businesses.

As reported by the BOD members, average member size of the cooperatives appears to be small. While 40% of the cooperatives have average size of members less than 80 and 60% of the cooperatives have average members in excess of 80. The average education level of the BOD members indicates that about 50% of them have had education level up to secondary, and 26% have studied beyond secondary level. About 23% have declined to divulge their education level, and it would be presumed that they would belong to either illiterate or with elementary education. About 53% of the cooperatives have been functioning following the by- laws of the Cooperative Act of 2008, while 47% of them have amended their by-laws as per Draft Cooperative Law of 2013.

Information on average share capital of the cooperatives have been ascertained. It is found that one-fourth of the cooperatives have a total share capital of less than Afs 25 thousand, and another 8% have share capita in the range of Afs 25 thousand to Afs 100 thousand, and about 45% have reportedly have share capital is excess of Afs 100 thousand. About 24% of the BOD members could not recollect about the share capital amount and remained non-committal (24%), which may be due to limited exposure in coop management and illiteracy.

About 75% of the BOD members have attended some training or the other, while 10% have not attended any training, another 17% have not responded. It may be safe to assume that those BOD members who report “no response”, might not have attended any training related to cooperative management.

The nature of training attended by the BODs is moderately diversified and relevant. They cover the areas of cooperative principles (27%), technical matters (30%), finance (25%), marketing (11%) etc.

On preparation of business plan, two simple queries were made. First, if they are aware of Business Plan, a mandatory requirement, and if so, if they are capable of preparing the same.

Business plan is an area where awareness of the BOD is unsatisfactory (53%). This again could be connected with limited exposure in coop and low literacy. Further, only 32% of them have said they are capable of preparing Business Plan. In intensive discussions with the stakeholders and coop leaders this issue surfaced very commonly and on our physical overview of the Template of Business Plan it was found that preparation such plan would require specialized knowledge, and cannot be prepared without basic knowledge of business operations and accounting principles.

There are a variety of problems reported by the BODs. They have been compiled and reported. It is found that in almost all the areas, the BOD members have reported some problems or the other. About

16% of the BOD members did not have any knowledge about General Assembly, which appears surprising. Most cooperatives have bank accounts (90%), and equal proportion of cooperatives prepare annual report⁵².

In the perception of the BOD members, technical training, market access related assistance, etc. are important areas the cooperative BOD members feel that they need to stress. About 90% of the coop surveyed said that they have bank account with the nearby bank branch. In Afghanistan, however the reality is that bank branches are limited in number and mostly located in town and cities, and therefore a rural coop will always need to transact with a bank branch that is located at some distance.

About 90% of the coop have reported to be preparing their annual reports. When inquiring about the perception of the BODs about enhancing their technical efficiency and awareness through training and capacity building, it was found that technical training and marketing exposure are the two important areas they would prefer to be interested in. On the whole, they appeared to be expressing interests in coop education and technical training and remain updated with the contemporary matters.

In summary, what we find is that the general profile of the BODs is quite average in the sense that for many of them education level is low, but they have gained considerable experience in BODs; however total mobilization of capital remains at a low level. The survey data also reveal that quite a good number of the coops have received assistance from donors, government as well from the members. Knowledge, attitude and practice wise, they do not appear to be exhibiting anything significant as most of them follow traditional method of working. Management wise, the BODs run the show and the Professional Board of management is a far cry, when the coop leaders appear to be occupying the coops privately without much broader vision for taking the development forward.

Table 6. 4: Profile of BOD members

Sr No	Indicators	Value (%)	Sr No	Indicators	Value (%)
1	Coop by their year of Establishment		9	BODs Attended Training	
	<1 Yr	7		Attended some Training	73
	1-3 Yrs	15		Not Attended training	10
	3-5 Yrs	21		No response	17

⁵² Due to acute shortage of persons, who could translate quickly into English these Annual Reports, the latter couldn't be used.

Sr No	Indicators	Value (%)	Sr No	Indicators	Value (%)
	➤ 5 Yrs	57		Total	100
	Total	100	10	Training attended by BOB members	
2	Commodity profile			Coop Principles	27
	Cotton	13		Technical	30
	Milk	9		Finance	25
	Animal Meat	21		Marketing	11
	Horticulture	30		Others	7
	Bee Keeping	9		Total	100
	Poultry	9	11	Knowledge about Business Plan	
	Other	9		Yes	47
	Total	100		No	53
3	Source of Capital			Total	100
	Only member equity	21	12	Ability to prepare Business Plan	
	Member plus Donor	32		Yes	32
	Member, Donor, Govt	42		No	68
	Member plus Govt	5		Total	100
	Total	100	13	Problems reported by the BODs	
4	Coop funded by Donors			Technical	21
	HCDP	12		Input	13
	OPRCD	4		Capacity Building	17
	CARD F	10		Marketing	13
	ASP	4		Finance	7
	Embassy of Finland	4		Credit	13

Sr No	Indicators	Value (%)	Sr No	Indicators	Value (%)
	Agha Khan	4		Others	16
	GIZ	10		Total	100
	ACF/NCA/ADA	22	14	Knowledge about General assembly	
	No Donor	30		Yes	84
	Total	100		No	16
5	Age of the BOD members			Total	100
	< 30 Yrs	13	15	Coop with bank account	
	30-40 Yrs	27		Yes	90
	41-50 Yrs	14		No	10
	51-60 yrs	9		Total	100
	➤ 60 Yrs	14	16	Coop preparing annual report	
	No Response	23		Yes	90
	Total	100		No	10
6	Coop by no of members			Total	100
	< 20	11	17	Perception of BOD about Training	
	20-50	20		Technical	26
	51-80	11		Finance	14
	81-110	21		Tax Exemption	14
	➤ 110	37		Marketing	25
	Total	100		Accounts	3
7	Education level of BOD Members			No Response	18
	Primary	26		Total	100
	Secondary	25			

Sr No	Indicators	Value (%)	Sr No	Indicators	Value (%)
	Higher Education	26			
	No response	23			
	Total	100			
8	Coop Act followed				
	Following By laws as per 2008 Act	53			
	Following bye laws as per Draft Law 2013	47			
	Total	100			
9	Share capital of Coop (Afs)				
	< 25,000 Afs	24			
	25, 001-100,000 Afs	8			
	100,001- 175, 000 Afs	20			
	➤ 1, 75, 000 Afs	24			
	Total	100			

Section 6.5: Lessons learnt for Evolution of Future Strategies for Cooperative Development

A closer examination of the case studies as well as the findings from the small sample survey have brought out several points of utmost concern for sustainability of Afghan agricultural cooperatives, besides calling for urgent reforms in cooperative policy and strategy. These are summarized below, before elaborating the same in the following chapters.

First, cooperatives being a special type of business organization demanding perfect synchronization between attributes of a democratic association and those of a business enterprise, both these attributes need to be promoted carefully while maintaining the necessary balance. In the working of the Afghan cooperatives, studied in this chapter, the enterprise component seems to have taken a back seat, while

the BODs seem to have taken too aggressive positions even forgetting the basic cooperative principles. This basic malady in Afghan cooperatives seem to have been reinforced by a few other factors, as captured below. While the enlightened and active cooperative leaders need active support and encouragement, they shouldn't be allowed to take the cooperative members and its organizational principles and character for a ride, nor should they be allowed to bypass or overshadow the functions of a strong professional management, as it has happened in the famous Indian model called 'AMUL'⁵³.

Second, involvement of too many Ministries and even too many Departments within the same Ministry seem to be implicitly pauperizing the Afghan agricultural cooperatives. It appears that unless and until the Afghan Constitution, through suitable amendment, defines, recognizes and protects genuine cooperatives as the most acceptable mode of business organization for the future of the country's agriculture, a systematic approach to cooperative development is unlikely to crop up, as the case studies of this chapter indicate. Although DACD is the prime governmental organization within MAIL, which is supposed to drive the development of agricultural cooperatives beginning from their inception, other Ministries (e.g., Justice, Finance etc.) and even some other Departments/Directorates (e.g., HR and Extension Directorates) within the same Ministry, in the absence of appropriate coordination under an unifying structure and assertive power of the parent Department (i.e., DACD), can significantly reinforce or hurt their progress either through timely supply of or by denying certain services. There are ample examples, for example, regarding promotion of cooperatives vis-à-vis self-help groups and associations (which are often looked upon as preludes to cooperatives) by different Directorates and Ministries, issues of taxation, issue of license for export, coordination across supporting NGOs and reasonable protection against unsolicited imports. In the absence of strong advocacy power of the parental Ministry and its clout with sister Ministries through effective inter-Ministerial coordination, agricultural cooperatives will always be at the receiving end. Lack of coordination between the central DACD and provincial DACDs is no less serious.

Third, the Cooperative Institute Department of DACD being under pressure with no support other than grant of mere salaries to its faculty and staff, who are again recruited often without the necessary qualification, experience and skills has further weakened the system, thus exposing the cooperatives to multi-layer short-term trainings under project mode⁵⁴.

Fourth, while foreign aid became absolutely necessary at the beginning of the new Republic after the prolonged Civil War and conflicts, in the absence of a well thought out plan and coordination for its

⁵³ See, for example, Cunningham (2009), for an illustration of the 'AMUL' model.

⁵⁴ See, for example, Dynamic Vision (2017), mimeo

use, its full potential is hardly being realized. Rather it is fueling dependency, affecting cooperative governance and creating undue expectations among cooperators, apparently to invite another kind of financial anarchy, in spite of their own financial capabilities, while the fact is that aid can't be flowing in for perpetuity. Revival of the national agricultural disbursement agency, which is a crying need of every cooperator, must be accorded topmost priority, without which farmers are getting drowned under interlinked credit transaction even from across the border through opportunistic traders and powers.

Fifth, the idea of establishment of single commodity cooperatives favored under the Draft Law of 2013 has a serious limitation in the absence of suitable scale and scope economies. Without going up the value chain through agro-processing, small cooperatives can't go very far and sustain themselves. So, while foreign aid has to be productively utilized within the limited time frame when it becomes available, the state and the units must be prepared to cross the take-off stage and/or sustain themselves with the help of their own resources or government resources, preferably the former.

CHAPTER 7

**Further Analysis for Evolution of Comprehensive Strategies for Afghan
Agricultural Cooperative Development**



Further Analysis for Evolution of Comprehensive Strategies for Afghan Agricultural Cooperative Development

Section 7.1: Introduction

Discussion in the preceding chapters has brought out to the surface the ground realities of Afghan agricultural cooperatives and especially about their constraints with respect to input procurement, production, processing, marketing, legal framework and infrastructure including credit, education, training and extension services, in particular. Selected case studies and a small sample based primary data, in spite of their certain serious limitations due to the current prevailing circumstances of the country, have provided further insights, besides reinforcing the earlier conclusions. Background materials on cooperative history, cooperative principles and their implications, alternative perspectives on cooperative theory, cooperative legal framework, and its operational framework embodied in cooperative governance structure provided the benchmark for comparison with the observed realities about Afghan agricultural cooperatives. The present chapter therefore provides the right platform where all acquired knowledge and insights gained so far can be reflected upon for assimilation and evolution of the necessary agenda for cooperative sector reforms in Afghanistan.

The chapter is organized as follows. It starts with a SWOT analysis of Afghan agricultural cooperatives as perceived by the officials of Directorate of Agricultural Cooperative Development (DACD) and expressed in an internal workshop organized during October 8-11, 2017 by the same Directorate. This section also highlights the need for a re-look at the roles of internal and external stakeholders of Afghan cooperatives in generating appropriate institutions. Based on inputs from the same workshop as well as knowledge extracted from the earlier chapters, sections 7.3 attempts to perform a critical analysis of the cooperative governance structure vis-à-vis its external stakeholders, who represent the supply side of the necessary institutional changes⁵⁵. Once the existing institutional gaps together with the underlying reasons are thus bared out in the earlier sections, the final section attempts to briefly set the agenda for a comprehensive cooperative sector reforms for the country.

Section 7.2: A SWOT Analysis of Afghan Agricultural Cooperatives and the Need for Institutions

The SWOT analysis of the Afghan agriculture cooperatives is performed on the basis of a set of

⁵⁵ As pervasive weaknesses of internal stakeholders – namely, cooperative members, their BOD members, and professional management, which constitute the demand side of institutional changes in the cooperative sector, is already covered in earlier chapters, this side is not further deliberated upon in this chapter. Further detailed discussion of the demand side of institutional change is skipped at this juncture for another reason – institutional changes at this stage is mostly supply-determined and imposed from above, mostly based on global perception rather than induced by the demand side articulated from below.

benchmark parameters that have direct or indirect relationship with the main theme – namely, cooperative governance. The parameters chosen are: congruence with traditional beliefs, donor support, institutional support from other external stakeholders including government, professional management, value-addition and marketing perspective, and strength of demand for institutional changes from main internal stakeholders. Following David Feeny's (1988) analysis of demand for and supply of institutional changes, Table 7.1 below has attempted to capture the views of DACD officials along the above-stated six parameters in the form of a SWOT analysis of Afghan cooperatives. Feeny's analysis assumes great importance in the Afghan cooperatives' context especially because missing institutions seem to be at the heart of the observed laxity in governance of these cooperatives, as apprehended in the last few chapters of this dissertation.

Table 7. 1: A SWOT Analysis of Afghan Agricultural Cooperatives

Dimensions	Strengths	Weaknesses	Opportunities	Threats
Congruence with traditional values	Agricultural cooperatives akin to traditional systems like <i>Hashar & Karez</i> .	Cooperatives began to be seen as an externally imposed system rather than built up on traditional values.	Good cooperative education can again strike roots with the traditional culture and values.	Rapid urbanization & strong winds of globalization and narrow individualistic approach may further erode the traditional collective action calculus.
Donor support	Provides easy access to grants & soft loans, besides technology, knowhow and exposure.	Project aid may not give free hand to recipient country in use; Donor interests may not converge with Afghan national priorities.	Donor fund can be used for sustainable institution building; Micro level success stories can be leveraged into regional/ national policy.	Aid dependency may generate false expectations and opportunism, thus killing local initiative; Sudden withdrawal of aid may jeopardize national plan priorities.
Institutional support from other external stakeholders including government	Early government support and help may facilitate initiation and even take-off under controlled conditions.	Uncoordinated approach of multiple government agencies may hinder more than help through supply of inappropriate institutions.	However, a strong and determined government, as in many developed nations, may follow a cohesive plan to implant a good cooperative network as a benchmark/ standard to the market players to follow.	Too much dependence on external stakeholders invariably affects long-term viability, as is the case of parastatal cooperatives in most developing countries.
Professional management	BOD members taking over the functions of professional managers in many Afghan cooperatives can confer only some short-term benefits.	Absence of professional managers in most Afghan cooperatives kills their enterprise character, thus facilitating elite-capture and ruling out long-term	Top class management if working hand in hand with outstanding leaders facilitates mutual learning, thus reinforcing growth and realizing all the lofty	Absence of a strong professional class or lack of monitoring of professionals are certain ways to achieve cooperative failure, thus

		growth.	goals of cooperation.	exposing the system to unfair competition.
Value-addition & marketing perspective	Dairy cooperatives, nourished by international agencies, seem to have taken this perspective.	Lack of awareness & affordability of quality products by general consumers, on the one hand, and absence of a professional class to promote brands, on the other, weakened this approach.	High intrinsic qualities of several Afghan horticulture products, in particular, with high demand at home and abroad are only to be tapped.	If not tapped on time, the market for premium products may be lost forever to unscrupulous traders and established multinational brands across the border, while farmers getting non-remunerative price may discontinue production.
Demand for institutional changes from main internal stakeholders	Mostly missing	Members with poor economic conditions mostly unaware of institutional needs; BOD members often performing executive function, thus ruling out any demand from management profession; government and donor interference often too high.	Awareness creation and empowerment of members under autonomous leadership and with effective lobbying activities can generate the right demand.	Vested interests among BOD members often ruling the roost.

For a long time, the subject of economics was clueless about the origin of institutions, and used to treat them as historical datum. It is only the economic historians cum early authors of institutional economists like North and Thomas (1973) who tried to explain long pieces of human history – like the ‘Rise of the Western World’. When institutional economics turned out to be an indispensable branch, people began to explain the emergence of institutions using the same universal economic logic of demand and supply. Feeny (1988) belongs to that tradition, which the present dissertation is trying to follow using Table 7.1, to bring out the institutional gaps constraining the functioning of Afghan agricultural cooperatives.

As Table 1.2 in the introductory chapter has classified the stakeholders of Afghan agricultural cooperatives as either internal or external or directly or indirectly participating in the transformation of inputs into output of the organization, Table 7.1 has looked upon the internal stakeholders (the two main categories of member-patrons and their boards, as well as the management-employees, though absent in most cooperatives) as the potential, if not actual, source of demand for institutional change, whereas most of the external stakeholders – more specifically, the donors, government departments and agencies, including those in charge of cooperative education, training, research and extension – represent the supply side of institutional change in the context of Afghan cooperatives. Unlike in the textbook micro-economics model, there is no water-tight compartmentalization between the demand and supply sides of institutional change, as some players like cooperative education, training and extension services tend to influence both demand and supply. I attempt below to clarify below the role of the six identified factors, which seem to be significantly influencing the institutional changes, and hence the operational side of the governance structure, in Afghan agricultural cooperatives.

Congruence with traditional values

The rural society in Afghanistan is still traditional and rather conservative with high social bonding among the fellow habitants. People largely live in a joint family system thus sharing feelings and empathies among the family members where collective actions take precedence over individualism. Away from home, the rural society practices of cooperation as a part of the social and cultural norms guide their behaviour. Another characteristic of the Afghan society is that it is highly a self-contained society where business orientation is low. For building on the traditional values, therefore, there are considerable opportunities for collective business organizations including agricultural cooperatives. Further, these qualities should be leveraged to build social capital for these cooperatives – it constitutes an inherent strength already embedded in the society. Sadly, successive external aggressions have deeply impacted the society where traditional values could not be capitalized to promote business enterprises of collective action – even during the Post-war reconstruction period, as seen so far. The paradox of informal cooperation and mutual self-help among the villagers for personal and community needs while not extending these attributes into a business enterprise is indeed a typical characteristic of the rural population of Afghanistan. This could however be overcome through sustained cooperative education, creation of awareness and adequate institutional support. If the demand for collective action services through cooperatives could be generated adequately on the part of the potential cooperative members, then institutions supplying such services should sooner or later gear up their activities to match the persistent demand. Thus, institutional approach to leverage traditional Afghan values and social practices into effective business enterprises appears unavoidable under present circumstances.

Unfortunately, as rapid changes in the societal structure is induced by urbanization and migration, and improvement in mobility and communication, there are possibilities that a stronger institutional drive could ward off the genuine demand for necessary institutional changes for the cooperatives.

Donor Support

Effective use of donor assistance, compliance with national priorities, identification and implementation of locally demanded projects and local capacity building through institutional engagement are some of the useful pre-requisites for success of externally funded projects in any recipient country. Post withdrawal of aid, the local projects tend to languish as observed in the context of dairy cooperatives of Kabul and Khatiz, where for want of capital mobilization and technical support, follow up project supervision and guidance have suffered. In many instances, the agricultural cooperatives have struggled to find mentors after the aid period is over, even though they operate reasonably well during the tenure of the aid period. This is again an institutional problem where local capacities have not developed commensurate with the requirements and therefore the vacuum created by withdrawal of aid cannot be suitably filled in by local talents. Therefore, while perpetual dependence on foreign aid is detrimental to the self-reliance principle of cooperation, aid needs to be utilized judiciously so that local capabilities are developed well on time to sustain cooperative business in the longer run.

Institutional support from other external stakeholders including government

The horizon of other external stakeholders of agricultural cooperatives in the context of Afghanistan is spread over many institutions and government departments. Enabling government institutions and other agencies would facilitate growth of viable cooperative movement for agricultural development, while overdose of bureaucracy and control would hamper their growth. As cooperatives are yet to take off from their inertia caused by various external and internal factors, the external stakeholders like government departments, DACD, credit institutions, service providers should adopt cohesive approach towards these cooperative institutions for their sustainability on the consideration that they are serving the most vulnerable farmer segment in Afghanistan.

Professional management

In principle and as per best practices, a cooperative business needs to be managed by professional managers, which is non-existent in Afghanistan. The BOD managed cooperatives is unable to generate fresh value for their members and ensure long term sustainability of business. Even if they are enlightened leaders of the rural communities, enjoying high charisma in their own neighborhood, they would most likely lack business acumen, knowledge, tactics and zeal to grow in a competitive

environment so as to become outstanding co-operators. Their engagement may breed elite culture, and may even promote vested interests, which may work at cross purposes in regard to cooperative autonomy and salience. Professional managers, on the other hand, are likely to bring in fresh perspective on modern technology, business knowledge and innovative practices and outlook to complement the intimate knowledge of member-patrons and their BOD members about the local ecosystem. Only then local cooperatives can think globally, but act locally to grow uninterruptedly in spite of the widely proclaimed and practiced mantras of liberalization and globalization, which cooperatives can't bypass beyond a very limited short run.

Value addition & marketing perspective

Case studies, survey results as well as group discussions reported earlier in Chapter 6 pinpoint that in most cases value addition in agricultural produces and strategy for penetrating premium markets for high value agricultural products are largely missing, with the exception of dairy unions, where too, only some limited effort has been made. Learnings from various donor funded projects as well as many internal studies suggest that agricultural produce including fruits and nuts produced in the country are of exceptional quality, but they suffer from infrastructural bottlenecks and inappropriate national policy for export. Creation of value chain across the cooperative hierarchy should be pushed forward if the agricultural cooperatives are to make any long term impact in the rural society of Afghanistan.

Demand for institutional changes from internal stakeholders

This is one of most critical institutional mechanism that could trigger momentum in the formation and functioning of agriculture cooperatives in the country. As mapped in Chapter 1, the internal stakeholders of cooperatives are farmers, BODs and the employees, of which farmers and BODs are currently active, but the employee-management segment is largely absent. In Chapter 6, a profiling of the farmers and their BOD members have been made - their attributes display low literacy, no awareness about cooperatives, cooperative principles, and bye laws, elite capture of most BODs, limited share capital, un-expressive member participation in General Assembly, virtual absence of production inputs barring dairy unions of Kabul and Khatiz etc. Under the given conditions, a proactive demand from the members as well as the BOD members is unlikely to surface in a strong way, given the prevailing inertia surrounding them, while at the same time the DACD, the nodal agency for promoting cooperatives is incapacitated due to a variety of internal and as well as external constraints, which would require a thorough overhauling of the system and comprehensive reforms (to be taken up in section 7.4). Feeble or absent demand for necessary institutional change is probably the most critical constraint on Afghan cooperative performance at this stage. Only a big jerk or a big push – maybe from an external donor

agency or cooperative education and training organizations – can rectify the demand gap for institutional reforms to re-enliven the cooperatives.

Section 7.3: Limitations of the External Stakeholders of Afghan Agricultural Cooperatives

The cooperatives, as we have seen through Chapter 2, have evolved through internal necessities of the people to resolve their common issues. In the context of Afghanistan, as we have already seen that during the period prior to Soviet aggression, the cooperatives in Afghanistan had taken a shape and direction that could have probably taken the country towards a sustainable progress of cooperative movement in normal course of time, but the successive external events destroyed the cooperative institutions. So, the cooperatives couldn't follow a smooth and disciplined trajectory - - the Russian regime followed a doctrine of "elite capture" and thus to gain control of the rural population through cooperatives. Though the Mujahedeen were a bit sympathetic to the cooperative members, the Taliban regime being most interested in producing anarchy decided to straightway destroy the cooperatives. The Transition government's priorities were to provide food, shelter and security to war-torn population, and the two elected governments therefore attempted to provide legal framework to the cooperatives. The spirit of cooperation somehow took a back seat during the long prevailing anarchy, which failed to make significant progress or impact in spite of government and international community support.

The discussions in the previous chapters have established that although the Government of Afghanistan has made efforts to formulate and implement a legal framework for cooperative development, they can at best be described as necessary condition, but not sufficient. This is because stakeholders, whether direct/indirect or internal/external, need to understand the right perspective, while the cooperatives have a difficult task to balance between the interests of various stakeholders. The demarcation between direct and indirect stakeholders is made through the transformation process that takes place in a cooperative form of business. In a traditional producers' cooperative, only the member-patrons' contribution in their supply of produce, the Board of Directors' services, the services of employees and professional management enter directly into the transformation process enabling the farmers' produce to enter the market. However, a lot of indirect supporting services like internal auditor's services, the security guards' services etc. don't directly enter into the physical process of transformation. At the same time, government regulatory services, external auditors' services, banking and insurance services etc., which too are in the nature of indirect inputs, comes from outside of the cooperative organization.

Within the spectrum of indirect stakeholders outside of the cooperative organization, some of the institutions and departments that the thesis has come across are DACD, MAIL, Ministry of Finance, and Ministry of Commerce, Ministry of Rehabilitation and Rural Development and foreign donors. Of

these, the role of DACD and its different departments are very relevant, as they are the mentor institutions to drive the cooperative movement. There are many other indirect stakeholders, which may evolve in future as the cooperative movement advances, but for the moment we have identified only the current ones not only to examine how they are involved, but also to find out if there is any deficiency in their relationship with the cooperatives.

To understand the point further, a summary of the detailed discussions captured through the four-day workshop with various departments of the DACD at head quarter as well as in provinces and districts together with their implications for cooperative sector reforms are provided below. The observations are made department wise, including the same at the provinces, and gaps in their capacities are identified.

The **Monitoring & Audit Department** lacks clarity on policy about registration, oversight and supervision of the cooperatives due to its internal constraints in field visits, low capacity, and limited coordination between HO and provinces and low computer literacy. DACD HO does not have much control over the staff in the provinces, as they come under the administrative control of the Directorate of Agriculture, Irrigation and Livestock (DAIL) and report to provincial governor. Moreover, the DACD cannot exercise control over those cooperatives which are not registered under the Draft Cooperative Law of 2013. It is reported that many cooperatives did not prepare P & L accounts for some years, yet the Department is incapable to get P & L statements updated due to lack of supervision and control. Besides, there are issues related to recruitment of new staff- - apparently the recruitment process is lengthy and the Administration Directorate of MAIL overlooks demands of the DACD (which is a technical Directorate).

The **Institute Department** of DACD has essentially the mandate of providing basic education and training to the staff of DACD and cooperatives, while they are incapacitated due to lack of infrastructure, staff, technical competency, and inadequate arrangements to impart training to DACD provincial staff and cooperatives. The faculty apparently possess long but hardly relevant experiences. Consequently, this institute has not been able to deliver its mandates due to various limitations of technical, managerial and infrastructure related problems (**details provided below under Limitations of Capacity Building Institution**).

The **Planning Department** acts as a coordinating Department within DACD and MAIL, and performs its tasks using a traditional method of compiling data and information, budgeting, preparation of projects and programs, which badly require upgradation of technical infrastructure including modern method of communication technology. This Planning Department narrates that they face a lot of

difficulties in getting cooperative development related projects approved from MAIL and on many instances their proposals to MAIL are ignored resulting in virtual non-functioning of any cooperative development project in Afghanistan.

The **Program Department** has roles mostly focused towards creating advocacy among cooperatives, building awareness, supervising and guiding cooperatives for preparing P & L accounts, building marketing capacities including looking after institutional marketing and coordination with the provincial offices for resolving issues of the cooperatives at the field level. They are however constrained by low skill, lack of communication facilities and insufficient manpower. Non-availability of micro level data poses problems for assessing potential for organizing new cooperatives. Additionally, they suffer from absence of modern marketing channel for creating opportunities in new markets for the cooperatives. There is total absence of any provision of agricultural credit to the cooperatives. The donor funded cooperatives do not necessarily take DACD on board and often implement their projects independently.

The **Provincial DACDs** have their own issues. They report to Director, DAIL at the provinces, and the line of command and tasks are assigned to them from DAIL. Their issues are absence of institutional mechanism to explain the Draft Cooperative Law (2013), absence of standard operating procedure, poor technical mind set, absence of model cooperatives for creating awareness and demonstration effect, and inability to reach out to the village cooperatives due to inaccessibility and poor transport communication. Though provincial DACD staff are part of the Cooperative Department, yet the coordination with DACD HO is weak and there is total lack of clarity in their job functions.

The **District DACD** staff report to provincial DACD. They are the first point of contact with the agricultural cooperatives. The profile of the district DACD staff is low and they have a variety of issues to resolve like low salary and allowances, no transport for movements, limited office space, no allowance for doing duties in difficult terrains. While they raise ground zero level issues like non-availability of institutional finance, absence of value addition in agricultural produces, absence of market channel and excessive tax burden on the cooperatives, they suggest that creation of agricultural development bank or suitable agencies for cooperative finance ought to be topmost priority to take care of the nagging issue of cooperative finance.

Interaction with most of the staff of DACD HO reveals that the average experience of the staff in DACD is in excess of 15 years, but they are still lowly engaged in their jobs. They lack abilities to serve the cooperatives due to various factors, internal as well as external. Though some of them hold post graduate degrees, but due to various constraints, they seem to be unprepared to undertake larger

responsibilities unless internal issues are streamlined, the DACD is strengthened, and their capacities are enhanced. This is one of the major issues, irrespective of the Department they belong to or the Province they represent. On the whole, the DACD has not been able to deliver its responsibilities in a manner that would promote cooperatives in the country.

The **MAIL** is an overarching Ministry which houses many directorates related to agriculture, irrigation and livestock. The DACD is one such Directorate. As we have seen in the preceding paragraphs, there is considerable erosion in the values and commitment of DACD to fulfil its mandates. The DACD has in the process suffered so much in terms of loss of image that it could hardly make any impact on MAIL. As a result, DACD has suffered miserably in terms of budget approval, allocation of funds for cooperative development projects, involvement of DACD in inter-directorate projects, sponsoring of DACD activities. All these have invariably affected DACD service delivery to the cooperatives. There is clear lack of focus and drive to accomplish their tasks in the Directorate and hence DACD seems to be in poor light within MAIL and across other Ministries - Ministry of Finance and Ministry of Commerce, in particular.

For example, the DACD needs to lobby with the Ministry of Finance to convince them how cooperative taxes impact the agricultural cooperatives and that tax on the cooperatives is in effect a tax on the smallholder producers. Moreover, although not probed, it is learnt that total earning from cooperative taxes to the government is insignificant, and there would be more economic and social benefit if tax remission is granted to the cooperatives. The DACD will have to prepare a cogent policy paper supported by factual data to convince the Finance Ministry for granting tax exemption. Similarly, Ministry of Commerce insists on separate license for the cooperatives for export. Given the present stage of development of the cooperatives in Afghanistan, getting permission from the Commerce Ministry itself becomes an issue involving huge transaction costs, as expressed by many cooperative leaders in course of discussions.

Limitations of Agricultural Finance

Agricultural credit is a critical input for promoting agricultural growth in any developing country and Afghanistan is no exception. The issue of agricultural credit is far more relevant in the present context of country studied as there are no direct credit lending institutions for agriculture during the last 25 years, especially after the closing down of the Afghanistan Agricultural Development Bank. It seriously constrained growth of the farming sector. The interest charged by the private banks are high, so the cooperatives couldn't borrow from them as an alternative business proposition.

In order to meet the demand for agricultural credit, USAID has been implementing "Agricultural Credit

Enhancement (ACE I & II) Program” by creating a USD 100 million Agriculture Development Fund (ADF). This fund was created as an interim corpus to take care of agricultural finance until its transition to an independent institution. The overreaching goal of ACE II is to transform the ADF into a robust and sustainable institution capable of expanding agricultural credit across Afghanistan. To achieve its objectives, ACE II focuses on various initiatives that would facilitate provision of credit to the agricultural sector through the intermediation of ADF funds. Under this program, the USAID established micro finance institutions that are responsible for agricultural finances. However, there is no provision for finances for the agricultural cooperatives, and the micro finance organizations are shy in extending general agricultural credit to the farmers. Moreover, their operations are localized and sectoral coverage is usually non-farm and service sectors. Therefore, arranging credit for the cooperatives continues to be the biggest challenges of Afghanistan at this juncture.

Limitations of Foreign Aid

As discussed earlier, foreign aid is critically important for Afghanistan’s safety, macroeconomic stability, food security and development purpose. In Chapter 6, it is seen how the assisted cooperative unions have performed during the tenure of aid and also after the conclusion of foreign aid. A snap shot experience, like the one in CARD F project of Badakhshan province, funded through foreign aid, suggests that absence of credit institution during post-withdrawal phase of foreign aid has severely impacted progress of Badakhshan project often resulting in technological constraints, non-availability of technicians for repair and maintenance of the green houses etc. However, the dairy development project, also a foreign aided project of India, has produced extraordinary results (see, Annexures 7.1a and 7.1b for detailed description of both these projects).

The learnings from the Indian project is that foreign aid, if used judiciously for building sustainable institutions, which are managed and governed by the farmers’ organizations besides being mentored by a provisional organization and with enabling policy regime of the National Government, even a modest project could bring forth far reaching impact in the rural society. Foreign aid will thus have to be used in a manner that it generates long term sustainability of the program implemented in the recipient country, and creates institutions of substance which alone can drive the program towards self-sustainable goals, by strengthening and governing programs in a manner such that the farmer members receive the true value of their transactions with the cooperatives.

Limitations of Capacity Building Institution

Cooperative education and training for capacity building in Afghanistan has been a neglected area.

While the main objective of cooperative education is creating awareness for making use of the cooperative mode of living in general and the cooperative form of enterprise in particular, the same for cooperative training is to make use of cooperative and cooperative like business organizations for creation of value and improving the livelihood opportunities of the members⁵⁶.

There is no separate institute for cooperative training and capacity building in Afghanistan. This function is managed by the Institute Department of DACD. There are severe limitations in the understanding of the cooperative concept, cooperative philosophy, roles and responsibilities of the BODs and the Supervisory Boards, besides members' rights and responsibilities. Low literacy and thin awareness on cooperatives are possible reasons, but institutional deficiency in creating awareness and motivation and the lack of business orientation seem to have significantly contributed to such a sorry state of affairs.

The Institute Department of DACD is responsible to provide training and capacity building lessons to the cooperatives and other allied departments of the government. The Department has only 6 faculty members; training classes are held within the DACD building as there is no separate building for the institute. Lack of physical infrastructure like hostel, vehicles, and computational facilities are obvious and glaring limitations. The older staff have often retired, while the new staff, even if recruited, do not possess the requisite skill to motivate the trainees. The institute cannot function independently as it is a part of DACD. No separate funds are allocated for training purpose and therefore they lack autonomy. The outstation trainees face inconveniences for want of accommodation. As a result, all training programs are organized on a day scholar basis, posing serious hardship for provincial DACD and other trainees. Additionally, for want of vehicle the trainees cannot be taken to outstation sites for field visits and demonstration. The efficacy of training is lost as no practical exposure is given to the trainees. Access to updated training activities for business oriented cooperative development is a far cry. In a nutshell, it operates like any other Department of the DACD and seems totally unfit to act as an effective training and capacity building institute for the cooperatives and other allied departments of the government. As both trainers and trainees don't have any exposure to outstanding cooperatives around the world, it is difficult for them to even imagine how the cooperative training and capacity building function could be activated and re-energized. Obviously, staff strength needs to be upgraded – specially to cover areas like marketing, book keeping, financial services including banking and insurance, farm management, business policy, SME sector development, cooperative legislation, negotiation and communication, contracting, collective action, strategy building and leadership development, technological and organizational innovations, mergers and acquisitions, management information

⁵⁶ Datta (2003): Evaluation of Cooperative Education and Training Services

services and related areas.

Cooperative as a general subject for teaching is also not pursued seriously in Afghanistan. In the graduate program, it is covered as a minor subject, offering only elementary knowledge and therefore even the teaching faculty in the agricultural colleges do not give adequate focus. As per the information gathered from official sources, there are only 21 agricultural faculties in entire Afghanistan who cover various subjects of agriculture and allied disciplines. Given the profile of the Institute Department of DACD, as narrated earlier, and that of the agriculture colleges of Afghanistan, the institutional arrangements on training and capacity building are bound to be at a critically low level. This deficiency of cooperative education, research, training and extension probably constitutes the most serious hurdle in the spread of cooperative philosophy in the country.

Section 7.4: Setting the Agenda for Comprehensive Cooperative Reforms

Evolving an appropriate governance structure involves development of a collective action perspective across all relevant stakeholders in an organization such that the concerns of each of the stakeholders are simultaneously taken care of while serving a common goal for all of them. Cooperative governance is fundamentally no different from a corporate governance in this regard except for the fact that a cooperative organization invariably involves a mix between associative and enterprise characters of an organization unlike pursuance of a narrow and unmixed goal of profit maximization on the part of the suppliers of equity capital. By virtue of their origin and evolution with a clear ideological bend, cooperatives have a much broader goal and stakeholder groups to cater to. It is therefore no surprise that the ILO Guidelines (2012) has claimed in the introduction itself that '*Cooperative enterprises build a better world*'. Obviously, to usher into that better world, the newly born Islamic Republic of Afghanistan, after 3-4 decades of prolonged civil war and conflicts, has embraced the cooperative form of organization as the mainstay of Afghan agricultural development. The credit goes to the wisdom of the founders of this new Republic and its international supporters that it allowed the roots of cooperation in the traditional Afghan society to spread its tentacles when a new government made a shaky start and a competitive market system was impossible to spring up in vacuum.

However, to make a system of agricultural cooperatives to be operational especially in the country side of a backward and war-shattered economy is no easy job. Though a legal framework for agricultural cooperatives is put in place, it is at most a necessary condition, but hardly sufficient for cooperative success. A large number of stakeholders both inside and outside of cooperatives must provide the necessary support and services within an appropriate governance structure to realize the high goals of a cooperative system of conducting business. It is because of realization of this underlying logic the present dissertation decided

to highlight the role of cooperative governance alongside broad based stakeholder cooperation as fundamental to cooperative success, as it has elaborated in the preceding chapters and sections. It is now high time to briefly enlist the agenda for comprehensive cooperative reforms in the context of Afghan agricultural cooperatives, keeping in view the interests of both internal and external stakeholders to such organizations, so that vibrant cooperative governance becomes a reality.

Table 7.2 provides a snapshot of an agenda for comprehensive cooperative reforms in Afghanistan based on discussion in preceding chapters and sections. As pointed out earlier, cooperatives have both internal and external stakeholders. The most intimate internal stakeholders – the member-patrons and their BOD members constitute the demand side of institutional changes, as they are to articulate their demand. A good governance structure like the same for private corporate business often internalize externality by taking at least some representatives of cooperative employees and management on the BODs. Only if the internal stakeholders can articulate and press their demand properly, the support service suppliers – mostly government agencies - will respond properly and on time. Friendly and organized community groups, though external stakeholders, can reinforce the internal stakeholders' demand for institutional changes. Coordination across various support service agencies – both inside (across several Ministries and even across various Departments within the same Ministry like MAIL) and outside government (e.g, organized agricultural credit suppliers (currently non-existent), foreign donors, cooperative education, training, research and extension agency) -- is the crying need at this moment for agricultural cooperatives. Even though DACD will probably continue to be the nodal agency for meeting all support service needs of the cooperatives, it should be sufficiently empowered with the current Ministerial set up so that it could negotiate (besides monitoring) not only with other Ministries, but also with other external agencies including foreign donors and other bodies to ensure that all cooperative needs are suitably met on time. Several important points need to be made in this context. First, cooperative education, training, research and extension, which needs maximum strengthening in the interest of properly articulating cooperatives' demand for institutional changes, may sooner or later be entrusted to independent autonomous institutions. Second, similar point can be made about an independent and autonomous National Agricultural Development Bank and Insurance Agency. Third, another National Coordination Committee for Cooperatives with representation of various Ministries and Departments must be launched, where representations from cooperatives and their allies like environmentalists, women groups, trade unions etc. need to be present to safeguard the interests of cooperatives from civil society side. With evolution of higher tier cooperatives, their representation and voice will be stronger and stronger, resulting in most cooperative support services being demand-driven, rather than supply-driven, as is the situation right now. To match demand and supply, foreign donations too may be routed through the same Coordination Committee.

Table 7. 2: A snapshot of an agenda for comprehensive cooperative reform in Afghanistan

Internal/external Stakeholders	Major concerns	Observed lacunae	Items for reforms
Farmer-Members & General Assembly	To maximize benefits for owner-users	Lack of awareness and empowerment	Membership eligibility criteria, Awareness and empowerment, Experience gathering thro' exposure visits, Safeguard against elite capture
BOD Members	To serve member goals through' interface with management and other stakeholders	Lack of expertise/domain knowledge and Business orientation	Fixation of responsibilities, Exposure to domain knowledge, Leadership development
Employees & Management	To manage and promote member business and policy implementation	Lacking professional skills to excel in business	Autonomous Cooperative Service Commission, Winning them over thro' incentives; Initiation of cooperative business development planning.
Government Service Providers	To provide enabling environment & rule out opportunism	Lacks coordination and initiative	National Coordination Committee of Cooperative Service providers with cooperative representation; Must also look into issue of cooperative taxation
Capacity-building organizations	To promote enlightened perspective and Skill Enhancement	Non-functional - merely existing for name's sake	Setting up of autonomous National Cooperative Education, Training & Research Institutes
Credit & insurance	To offer customized products and services	Mostly absent	Establishing autonomous National Agriculture Development Bank and Insurance Agency
External Donors	To provide capital and technical know how	No fall back arrangement, Failure to upscale successful pilot projects	Demand for & supply of donor support to be routed through' National Coordination Committee
Organized interest groups within community	To promote a broad based brotherhood in mutual interests and for purpose of lobbying	Hardly any bridge is built	Setting up of state level advocacy group with National Federation of Cooperatives as apex body.

CHAPTER 8

Summary, Conclusions and Strategies for a Way Forward

Summary, Conclusions and Future Perspectives for Coop Development

Introduction

This chapter summarizes the important observations and findings of the present research which have been contained through 7 chapters presented earlier. The present chapter (8) provides an overview of the exercise through summary and conclusion and draws up a future perspective for development of agricultural coop in Afghanistan including roles and responsibilities that all the stakeholders would need to perform for achieving the goal.

Given the fact that the war-ravaged country of Afghanistan has committed itself to sustainable rural and agricultural development through the cooperative route, the present dissertation, seeing lackluster performance of agricultural cooperatives in the post-conflict era, decided to attempt to reverse the trend at least in terms of intellectual discourse. With this end in view, it decided to highlight the importance of cooperative governance, while attempting to bring out a detailed roadmap for suitably reforming cooperative governance structure together with the framework of stakeholder participation, while at the same time trying to achieve progressively lesser dependence but greater productivity of foreign aid to preserve cooperative independence and autonomy

The main objective of this thesis is to analyze, both theoretically and empirically, the condition of governance structure in Afghan agricultural cooperatives, to understand the cooperatives from the viewpoint of their stakeholders and also to study the role of foreign aid into the cooperatives in the current context of Afghan agriculture. The ultimate goal is to evolve a suitable governance structure to sustain the Afghan agricultural cooperatives. Emphasis is placed on identifying the success factors under macroeconomic perspective of the farm economy, keeping in mind interdependence of various economic activities such as production, distribution of farm inputs and marketing of farm products. Accordingly, attempts are made to seek solutions in terms of a better governance of the Afghan agricultural cooperatives, which will make them robust thus avoiding large-scale failure of such organizations.

Although the problem areas of Afghan agricultural cooperatives appear to be many, only some of them seem to take precedence over others. The core issues which require serious and rigorous probing are (i) what type of cooperatives are most suited in the current socio-economic conditions of Afghanistan, (ii) what would be the governance structure, stakeholder cooperation and effective

utilization of foreign aid, (iii) what are the factors that constrain smooth functioning of agricultural cooperatives, and finally, (iv) suggesting a future perspective/broad strategy to strengthen the cooperative structure of Afghanistan.

Preliminary probe into the existing literature threw to the author several testable hypotheses, which are expected to provide useful handles in the author's quest for a deeper probe into the problem. The hypotheses are: (i) *Smooth flow of information to various stakeholders, perfect coordination across the decision makers and implementing agencies, and effective use of a suitable forum for resolution of conflicts across stakeholders, which constitute the critical factors of a governance structure to ensure success of an organization, seem to be missing in the Afghan context;* (ii) *the stakeholders of Afghan agricultural cooperatives have low attachment with their cooperatives; and (iii) foreign aid isn't properly utilized to make the agricultural cooperatives sustainable.*

The chapter is organized through 6 sub-sections covering important observations under theoretical findings, empirical findings, methodology, imitations, work syntheses and future perspective. While first four proposed area of presentations are self- explanatory, work syntheses basically refer to summary of important findings in respect of main objectives and hypothesis, modalities adopted to prove the hypotheses and based on work syntheses, what recommendations could emerge for constructing a future perspective of development of agriculture coop in Afghanistan.

The purpose of presenting this chapter into above 6 sub-sections is intended to make (i) a strong impact on the outcome of research, and (ii) outline recommendations in a manner that help assist the government policy makers to consider initiating appropriate reform process, and (iii) identify future areas of research in the coop sector. As mentioned earlier, unlike theoretical and purely academic research, the scope of the present research is primarily focused towards contributing to research inputs that aid policy making for a differently placed country like Afghanistan, while justifying the future perspectives/recommendations that are drawn from detailed analysis of the cases and sample surveys as well as desk researches.

Section 8.1: Theoretical findings

The theoretical framework of this dissertation hinges on building a bridge between stakeholder cooperation and cooperative governance through a collective action route, so as to make cooperatives operational and effective in reality. So, it starts with identification and classification of all types of stakeholders – whether internal/external to the organization or whether they make direct/indirect contribution to the functioning of the organization. Naturally, the roles and contributions of different stakeholders need to be appreciated before they are dragged into a collective action process – partly through law, rules, regulations, customs and traditions, but also partly through voluntary efforts and inducements designed by grass root leaders. So, the essential contribution of this dissertation is to provide this linkage between stakeholder and collective action theories if a good governance structure is to be evolved. The recommendations for strengthening and activating the cooperative governance structure are provided within a framework of demand for and supply of required institutional changes for comprehensive cooperative sector reform through appropriate classification of cooperative stakeholders into internal/external and direct/indirect categories and thus making use of their natural interests and concerns.

Section 8.2: Empirical findings

Empirical analysis highlights evolution of the cooperative form of business organization together with its theory and multiple perspectives. It demonstrates that sound cooperative governance, stakeholder cooperation and cooperative autonomy are necessary pre-conditions for cooperative success.

A cooperative form of organization being looked upon as an appropriate mix between association and enterprise properties, rather than a mere profit-maximization format of an organization, attaining the goals of a cooperative is far more difficult proposition than that for a private business. Moreover, the celebrated cooperative principles which constitute cooperative organizations' distinctive identity, have made cooperative success dependent on support from a wider spectrum of stakeholders from both within and outside of a cooperative organization irrespective of whether their cooperative inputs directly or only indirectly influence the cooperative's functioning. So, to identify the sources of success/failure of a cooperative organization, one needs not only to identify but also to evaluate the roles of its direct/indirect as well as internal/external stakeholders. In a traditional producers' cooperative, typically engaged in only pooling and marketing of individual farmer-members' produce, it is only the member-patrons' contribution in terms of their supply of produce, the Board of Directors' services, and the services of employees and professional management, which directly help enter the farmers' produce into the market.

However, a lot of indirect support services like internal auditor's services, the security guards' services etc. don't directly enter into the physical process of transformation between inputs and output. At the same time, government regulatory services, external auditors' services, banking and insurance services etc., which too are in the nature of indirect inputs, comes from outside of the organization. Some direct inputs like complementary order supplies or services like electricity, technology, innovation and research, education, training and extension⁵⁷, in spite of those inputs directly entering into the transformation process, may come from outside of the cooperative organization. This basic idea behind demarcation between internal vs. external and direct vs. indirect stakeholders is captured in a 2x2 framework to classify all stakeholders for a typical primary agricultural cooperative, which takes a central stage in the current dissertation on cooperative governance.

On a contextual issue, the phenomenon of civil war and its duration has been far too long in Afghanistan affecting national governance as well as governance of local institutions including agricultural cooperatives. The thesis establishes some of the economic and social causes of perpetual civil war and how they affect governance not only at the macro level but also at the local level. In addition, foreign aid has been playing a significant role in the national economy and the agricultural cooperatives are also dependent on foreign aid which affects the autonomy and decision making power of the cooperatives. One of the major highlights of the analysis of foreign aid reveal that different multi - lateral and bi lateral agencies have implemented variety of development program during the tenure of the project period without developing a sustainable arrangement for their continuance. Such institutional vacuum has led to coop projects turning orphan after the aid period is concluded.

Section 8.3: Methodology

The methodology adopted is a mix of qualitative and quantitative approach, with a focus largely on qualitative and descriptive in content and approach. It is focused towards identifying various parameters that are associated with the collective action process being followed in cooperatives. Accordingly, structured discussions have been carried out with different stakeholders including farmer-members, Board of Directors (BOD), DAIL and DACD officials as well as MAIL authority including Deputy Minister in charge of technical affair. A few organizations engaged in providing institutional credit, some donors and NGOs have also been contacted to elicit their views on this subject of research.

⁵⁷ Technology, education, training, research and extension being embodied in machines and human capital enter directly into the transformation activities.

It also gathered a small primary data to seek at least quantitative and qualitative responses from the cooperative members and BOD members. To understand the condition of the cooperatives from a closer perspective, 5 case studies spread over several provinces and representing different commodity profiles have been conducted. For a better understanding of the agricultural cooperatives, this research has also relied on secondary data to a significant extent by accessing data from various government sources like the Ministry of Finance, the Ministry of Agriculture, Irrigation and Livestock (MAIL), the Ministry of Rehabilitation and Rural Development, Central Statistical Organization (CSO), Provincial Governments, external donor agencies, NGOs etc.

The institutional aspect of coop development has been studied by organizing a 4-day workshop involving all officers and staff of DACD, the nodal department within MAIL responsible for providing one umbrella services to the coop, including coop education, training and capacity building. The important observations are, in the final analysis, have been made after triangulating information gathered from multiple sources and validating them through alternative means. Therefore, the material used for the research is in fact comprehensive in nature subject to availability and their analysis and interpretation of the context keeping the objectives and hypotheses at the back of mind.

Sections 8.4: Limitations

When it was clear that no baseline data is at all available in this war-shattered economy, nor is it easy to access interior villages and win over enough confidence of the villagers to access quantitative data from cooperative records or through individual interviews, a compromise had to be made. Due to non-availability of basic data required to prepare a scientific sample frame, coupled with security concern, many provinces could not be accessed. So, the selection of coops considered for case study could not be broad based both physically as well as from the angle of commodity profile. The DACD, the nodal agency for housing coop data and information, was found to be handicapped with availability of updated data on registered coop under the coop amendment Law of 2013. As a result, degree of freedom in selecting case study coops was restricted. Moreover, getting contacts with key personnel of the sample coop was not easy as DACD could not provide any clue to those coop that had not registered under them. However, such deficiency was more than overcome through collection and validation of data and information from multiple sources. Therefore, the research could fall short of expectation in terms of quantitative data for rigorous statistical analysis, but the qualitative component of the study was enriching, over compensating availability of limited statistical data. Incidentally, it may be noted that availability of time series data for many other sectors of the economy in Afghanistan is at its infancy,

due to not poor benchmark in statistical ecosystem of Afghanistan.

Section 8.5: Work Syntheses:

Though a cooperative form of organization is formally born first through the efforts of the Rochdale Pioneers as an offshoot of the capitalist development in Britain as early as in 1844, Cooperative Identity and Principles vis-a-vis the modern business got first crystallized during Manchester Congress of the International Cooperative Alliance (ICA) only in 1995, resulting in spread of a vast network of cooperatives across the length and breadth of both developed and developing countries.

Although ICA recognizes five established traditions of cooperatives – namely, producer, consumer, credit, labor and shared service, the latest Draft Law of 2013 seems to have concentrated only on single-community producer cooperatives at primary and higher-tier levels – apparently hardly emphasizing multipurpose cooperatives as well as the other four traditions. Literature review, however, has found relevance not only of multipurpose perspective and heterogeneous member base, as being increasingly emphasized by Solidarity Business Models, but also of other traditions of cooperatives for Afghanistan. It has especially emphasized the learnings from New Generation Cooperatives as Dairy and other cooperatives are already in the process to undertake agro-processing and marketing of value-added premium product marketing. Solidarity cooperatives are fairly well-known and constitute statistically significant proportions in terms of numbers across the world. Worker cooperatives, though significant in numbers today, got strong support and encouragement from the successful functioning of Mondragon workers cooperatives in the Basque province of Spain. Shared Services cooperatives, too, though quite common in developed countries, are less known in developing countries in spite of the fact they are probably more relevant in the latter context.

The Draft Afghan Cooperative Law of 2013 seems to be favoring single commodity cooperatives more than multi-purpose ones for certain reasons. It is also important to highlight the role of new generation type processing cooperatives given the fact that the Afghan agricultural cooperatives badly need value-adding perspective.

Naturally, while elaborating on the relevance of cooperative governance, this dissertation has highlighted the importance of combining several perspectives: collective action theory, stakeholder theory, institutional economics - all are now-a-days parts of modern organizational economics.

While noting striking features of the Afghan economy, in general, and its predominant sector, agriculture, in particular, in terms of location, land use, demography, rainfall, temperature, irrigation, landholding and land tenure, cropping pattern, production and productivity, importance of horticulture and livestock, indebtedness, poverty and vulnerability, and agricultural infrastructure including roads, credit and marketing networks, it appears that these basic weaknesses will perpetuate a widespread market failure problem for this severely war-ravaged economy for a considerable period of time in the future, while the Government of the Islamic Republic of Afghanistan with its meager resources can only make a shaky start. It thus explains why building up grass root cooperatives becomes the mainstay of the Afghan development strategy in the eyes of the national government as well as its international supporters.

However, when one closely examines the history of Afghan agricultural cooperatives, one is impressed by observing that the principle of mutual cooperation is strongly embedded in traditional Afghan culture with *Hashar* and *Karez* being two widely practiced social norms that fellow citizens practice for mutual help to each other. The former involves contribution of voluntary labour for house repair and construction, roof plastering, while the latter refers to maintenance of irrigation channel, both within and across the villages by contributing voluntary labour based for mutual help and as per societal norm. While *Hashar* is for mutual help within the villages, the practice of *Karez* is for building up of social capital for community benefits.

The important milestones in the history of Afghanistan cooperative movement starts with a consumer cooperative in *Khutub Khil* village set up under the supervision of ILO in 1963, followed by establishment of credit cooperative and a training centre in Kabul under international assistance. Numerical growth of cooperatives took place following drafting of first cooperative law in 1974 and subsequently, 135 new cooperatives were established, of which 124 primary agricultural cooperatives. These cooperatives were spread over 11 provinces of Afghanistan, and as per available knowledge they worked successfully across many segments of the rural society.

External influence into the cooperatives started overflowing after Soviet capture of Afghanistan in 1979. The communist regime took decision to establish more cooperatives as a matter of policy regardless of demand. In April 1981, a new cooperative law was passed which paved the way of liberal assistance of all kinds to cooperatives and co-operators apparently to win over elites in the country side. But that was the first occasion in Afghan history when cooperatives started becoming parastatal bodies and the members lost their own initiatives.

After accession of power by the *Mujahedeen* (a radical religious Group) from the Communist rule in 1991, politicization of cooperatives continued unabated. In 1995, however, when the *Taliban* (another radical religious Group) took control of the nation, all infrastructure including the buildings and other assets of the cooperatives were destroyed. More than 80% of the active and functional cooperatives were closed down.

When the Afghan Transition Government came into power, they initiated activities with a focus to encourage the cooperative movement, establish new cooperatives, rehabilitate older cooperatives, but due to absence of an organized plan between the foreign donors (for humanitarian, development and aid for security) and stakeholders, the cooperatives did not fulfil their stated goals and objectives. The cooperatives were used to channelize foreign aid through these institutions to provide survival grant to the needy people thus inflicting considerable blow to the structure and governance of cooperative institutions.

In 2008, a draft Cooperative Law was passed but it could not create an enabling environment as it could not guarantee welfare and economic benefits to the farmer members while it focused on numeric expansions of cooperatives. In 2013, a draft cooperative law was prepared, and under this law, all cooperatives registered under the previous law was asked to register with the DACD. Under draft Afghan Agriculture Cooperative Law 2013, the DACD has so far completed registration of 75 agriculture cooperatives, of which 25 are supported by donors. Failure of a large number of pre-existing cooperatives together with lacklustre performance of the surviving ones are continuing to raise serious questions about effectiveness of cooperative governance and Afghan cooperative policy.

Though the Soviet-backed government seemed to promote grass root cooperatives, they were mostly impositions from above probably aimed at controlling the countryside rather than initiating genuine cooperatives. No trace is found of any formal legislation during the prolonged war period, though some occasional piecemeal international efforts went on. In view of this background, the government of the Islamic Republic of Afghanistan must be credited for attempting to come out with a 2008 Legislation. Various reasons are, however, cited for replacing the 2008 Act by a fresh Draft 2013 Act. First, the 2008 Act is alleged to be generic in nature having little clarification about the various terms used and detailed specification about the processes to be followed. As a result, though as many as 2800 agricultural cooperatives were registered, most of them remained inactive partly because of their failure to observe the processes, which invited hefty penalties. Second, the necessary thrust on single commodity cooperatives was missing, as a result of which dilution of interests and lack of focus began to be observed in member participation. Third, the necessary emphasis on the virtues of self-help and

self-sufficiency in consonance with the universally accepted cooperative principles was missing to reverse the earlier trend of creation of cooperatives from above with strong dependency syndromes. However, as it will be clear from further analysis of the Draft Law, many ills continue to remain.

Whereas the ILO Guidelines (2012) is the result of a long period of experience based on numerous experiments across countries, the Draft Law (2013) of war-ravaged Afghanistan never had the opportunity to build up on such vast and rich experiences. Nevertheless, the close proximity between the Afghan Draft Law and the ILO Guidelines in capturing the true spirit of grass root cooperatives is quite striking. The Draft Law, 2013 runs through 41 articles and is divided into 8 chapters: (1) General Provisions, (2) Conditions for Establishment & Registration of Agricultural Cooperatives, (3) Membership, Registration & Exclusion from Agricultural Cooperatives, (4) Organizational Structure & Management of Agricultural Cooperatives, (5) Financial & Accounting Affairs of Agricultural Cooperatives, (6) Rights & Obligations of Agricultural Cooperative Members, (7) Joining, Amalgamation, Division & Liquidation of Agricultural Cooperatives, and (8) Miscellaneous Provisions.

Though considerable fine-tuning is deemed necessary, which can happen only over time, the Draft Afghan Law seems to have displayed high level of maturity in accommodating several outstanding features of the ILO Guidelines. First, unlike India, which has treated cooperatives as a part of the government for a long time⁵⁸, the Draft Afghan Law has left no illusion about ownership of cooperatives, as these are clearly declared as part of the private economy, though they are quite distinct from Investor Oriented Firm s (IOFs). Second, although Afghan cooperatives are in their infancy, the Draft Law has quite imaginatively made provisions of higher tier bodies at district, province, region and national levels to tap the full benefits of the cooperative mode of organization. Third, the Draft Law, quite consistent with the true spirit of cooperatives, hasn't looked upon cooperatives merely as economic organizations, but also as vehicles to achieve social and cultural goals. Although the Draft Law hasn't spelt out the details of the National Union except that it is looked upon as a national confederation, probably inadvertently the Draft seems to have come close to creating what in recent literature on cooperatives is being referred to as multi-stakeholder cooperative, where diverse interest groups are not merely tolerated, but embraced within a single cooperative structure. This approach has now-a-days come to be known as 'Solidarity as a Business Model'.⁵⁹ Although multipurpose cooperatives aren't explicitly encouraged in the Draft Afghan Law, with its critical emphasis on

⁵⁸ Even after relatively recent Constitutional Amendment to remove this illusion, most traditional Indian cooperatives continue to run as parastatal bodies, with high dependency on government finance, administration and policy support. For details, see Datta (Ed), 2004.

⁵⁹ Source: Cooperative Development Center, Kent State University, 2011

Business Development Plan as an indispensable tool for cooperative development, the country may as well highlight this multi-stakeholder feature beginning from primary level cooperatives and thus join the Solidarity group of cooperatives in the coming days.

However, there are a few observed gaps in the Draft Law, when we compare it with the ILO Guidelines. As suitable legal frame is a necessary condition for good governance and high organizational performance, some of the observed gaps in the Draft Law are listed and explained below:

1. As the ILO Guidelines has highlighted time and again, a cooperative form of organization constitutes a delicate balance between democratic association and enterprise characteristics. This distinctive feature of cooperatives ought to find a place with necessary elaboration in the preamble of Afghan Law so as to signal future perspectives of what the country wants to achieve, besides why and how through agricultural cooperatives. Not only inclusion of but also illustration on cooperative principles, cooperative identity and cooperative definition in simple, crisp language in the preamble are therefore urgently needed to set the stage right.
2. Unlike the ILO Guidelines, the Draft Law hasn't elaborately discussed the documents needed and the process to be followed for cooperative registration.
3. While the Draft Law has made provisions for higher tier cooperative bodies and stipulated unique physical jurisdiction for cooperative unit, it hasn't provided any operational clue towards allocation of geographic areas, which can avoid possible confusion due to conflicting claims by two or more cooperative units, as it happened in India. Maybe only after such conflicts will arise, sensitivity for clear demarcation of areas across cooperative units will arise to find a solution.
4. Although multi-tier cooperative structure is provided for Afghan agriculture, one must raise a caution against possible misuse of the multi-tier structure, as Indian credit cooperative are suffering from⁶⁰. So, Afghan agricultural cooperatives, as they are still in formative stages, may

⁶⁰ The Indian credit cooperatives have a three tier structure. When agricultural refinance is provided to cooperatives by National Bank for Agriculture & Rural Development (NABARD) at a rate much higher than it accesses low-interest fund from Government of India and/or international agencies, it first enters the State Cooperative Banks (the highest tier), which then relends the funds against some percentage commission to the second tier cooperative bodies, called District Central Cooperative Banks, the grass root level cooperative credit cooperatives in the third tier ultimately receiving these funds for on-lending again at a certain percentage of commission. Consecutive mark-up of interest rate due to commission payment at multiple cooperative tiers belies the very purpose of cooperative credit – making it prohibitively costly and cumbersome due to a series of bureaucracy, but hardly making it timely and efficient. This has happened because of multi-tier bureaucratic structure, where cost is added at each tier, while there is no value addition for the customer. The dairy cooperatives in India, on the other hand, follow what is popularly known as the Anand Pattern, wherein each tier performs a distinct economic function, enjoying economies of scale at that level and thus adding value for the customer at each step. No wonder, the Anand Pattern of dairy cooperatives using this strategy has to the stage of establishing a global brand called AMUL.

- extract the necessary lessons from India's below-stated experiences to tighten the governance structure of their higher tier cooperative bodies and ensure their success and sustainability.
5. While the first cooperative principle emphasizes 'open membership', the objective isn't to embrace members who have no capability, nor any interest in using the services of the cooperative. Hence, there is need to qualify this principle and define active membership – members with attributes to make use of cooperative service of a minimum quantity and/or for a minimum period, which must be included in the definitions provided in Article 3 to safeguard the interests of genuine cooperatives⁶¹.
 6. As cooperatives are inherently capital-deficient, alternative routes of raising capital, as elaborated in ILO Guidelines, must be covered with appropriate illustrations of pros and cons, and safeguards. While capital deficiency must be overcome at least in the initial stage, cooperatives can't afford lose their democratic character, as many parastatal cooperatives in India seem to have done by allowing heavy inflow of government share capital contribution together with its many associated undesirable consequences.
 7. As cooperatives are not profit-making companies like IOFs, cooperative surplus has a distinct meaning and implications, which is elaborated in details together with its computation in the ILO Guidelines. Afghan Draft Law would benefit if this subject is treated with similar details. Also because cooperative taxation is quite different from corporate taxation, the taxation issues also need detailed treatment, besides bringing out the tax implications of cooperative dissolution and liquidation.
 8. Board of Directors (BOD) of cooperatives are required to perform a different role as compared to their IOF counterparts, given their dual association and enterprise characters. So, being interface between the member patrons and their General Assembly, on the one hand, and the management and administration, on the other, they must always strike a knife-edge balance between association and enterprise interests. So, the provisions made in Article 24.2 that *"the board of directors shall select from amongst themselves a director, a deputy director, a secretary, and a cashier in their first meeting"* look totally unwarranted, maybe by mistake; BOD is a policy making, guiding and supervising body, which can't directly take up the job of administration and management.

⁶¹ Once again, example may be cited from the Indian states of West Bengal and Kerala, where communist provincial governments in their eagerness to expand their support base opened the floodgate for membership through a ploy called 'universal membership' by which anybody could become member of any cooperative without paying for the full share value and without using the cooperative services, but only to distort the governance structure through opportunistic voting and pulling down accumulated reserve funds and established business activities.

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9. Similarly, the external auditor has a distinct role for cooperatives, as rightly emphasized by the ILO Guidelines. Their main job being preserving the interests of cooperative members, this task can't be left to government administrators, as the Draft Afghan Law seems to have done. Indian cooperatives were subjected to government audit for a long time with all possible ill consequences, from which the Afghan cooperatives should probably learn. ILO Guidelines have justifiably argued for development of an independent audit fund from which independent auditors can be drawn by cooperatives to perform this job in the most efficient manner.

The case studies were conducted to understand the principal themes of the investigation – namely, governance, stakeholder involvement and use of foreign aid, besides other issues. A limited primary survey of a select group of members (n=22) as well as BOD members (n=19) across 23 cooperatives from 16 out of 34 provinces of the country was conducted at the same time to generate probably the first base line data of Afghan agricultural cooperatives, which were virtually absent in the past. These studies brought to light the extent of member awareness about cooperatives and their expectations.

First, cooperatives being a special type of business organization demanding perfect synchronization between attributes of a democratic association and those of a business enterprise, both these attributes should be promoted carefully while maintaining the necessary balance. In the working of the Afghan cooperatives, however, the enterprise component seems to have taken a back seat, while the BODs seem to have taken too aggressive positions even forgetting the basic cooperative principles. While the enlightened and active cooperative leaders would require active support and encouragement, they shouldn't be allowed to take the cooperative members and its organizational principles and character for a ride, nor should they be allowed to bypass or overshadow the functions of a strong professional management, unlike what has happened in the famous Indian model called 'AMUL'⁶².

Second, involvement of too many Ministries and even too many Departments within the same Ministry seems to be implicitly pauperizing the Afghan agricultural cooperatives. It appears that unless and until the Afghan Constitution, through suitable amendment, defines, recognizes and protects genuine cooperatives as the most acceptable mode of business organization for the future of the country's agriculture, a systematic approach to cooperative development is unlikely to crop up. Although DACD is the prime governmental organization within MAIL, which is supposed to drive the development of agricultural cooperatives beginning from their inception, other Ministries (e.g., Justice, Finance etc.) and even some other Departments/Directorates (e.g., HR and Extension Directorates) within the same

⁶² See, for example, Cunningham (2009), for an illustration of the 'AMUL' model.

Ministry, in the absence of appropriate coordination under an unifying structure and assertive power of the parent Department (i.e., DACD), could hardly provide necessary services. There are ample issues, for example, promotion of cooperatives vis-à-vis self-help groups and associations by different Directorates and Ministries, issues of taxation, issue of license for export, coordination across supporting NGOs and reasonable protection against unsolicited imports, which demand satisfactory resolution. In the absence of strong advocacy power of the parental Ministry and its clout with sister Ministries through effective inter-Ministerial coordination, agricultural cooperatives will always be at the receiving end. Lack of coordination between the central DACD and provincial DACDs is no less serious.

Third, the Cooperative Institute Department of DACD being under pressure with no support other than grant of mere salaries to its faculty and staff, who are again recruited often without the necessary qualification, experience and skills has further weakened the system, thus exposing the cooperatives to multi-layer short-term trainings under project mode⁶³.

Fourth, while foreign aid became absolutely necessary at the beginning of the new Republic after the prolonged Civil War and conflicts, in the absence of a well thought out plan and coordination for its use, its full potential is hardly being realized. Rather it is fueling dependency, affecting cooperative governance and creating undue expectations among cooperators, apparently to invite another kind of financial anarchy, in spite of their own financial capabilities, while the fact is that aid can't be flowing in for perpetuity. Revival of the national agricultural credit disbursement agency, which is a crying need of every cooperator, should be accorded topmost priority, without which farmers are getting drowned under interlinked credit transaction even from across the border through opportunistic traders and powers.

Fifth, the idea of establishment of single commodity cooperatives favored under the Draft Law of 2013 has a serious limitation in the absence of suitable scale and scope economies. Without going up the value chain through agro-processing, small cooperatives can't go very far and sustain themselves. So, while foreign aid should be productively utilized within the limited time frame when it becomes available, the state and the units should be prepared to cross the take-off stage and sustain themselves with the help of their own or government resources, preferably the former.

SWOT Analysis, Stakeholder Limitations and Agenda for Institutional Reforms

To arrive at the desired cooperative governance structure, a two-step analysis is performed. In the first step, a SWOT analysis of Afghan agricultural cooperatives is performed on a set of benchmark parameters - namely, congruence with traditional beliefs, institutional support from external

⁶³ See, for example, Dynamic Vision (2017), mimeo

stakeholders including donors, government, value-addition and marketing perspective, professional management, and strength of demand for institutional changes from the main internal stakeholders. In the second step, the limitations of both internal and external stakeholders' demand for and supply of requisite institutional changes are analyzed to bring out a comprehensive agenda for cooperative sector reforms. Table 8.1 below has brought out the results from the first-step exercise.

Table 8. 1: SWOT Analysis of Afghan Agricultural Cooperatives

Dimensions	Strengths	Weaknesses	Opportunities	Threats
Congruence with traditional values	Agricultural cooperatives akin to traditional systems like <i>Hashar & Karez</i> .	Cooperatives began to be seen as an externally imposed system rather than built up on traditional values.	Good cooperative education can again strike roots with the traditional culture and values.	Rapid urbanization & strong winds of globalization and narrow individualistic approach may further erode the traditional collective action calculus.
Donor support	Provides easy access to grants & soft loans, besides technology, knowhow and exposure.	Project aid may not give free hand to recipient country in use; Donor interests may not converge with Afghan national priorities.	Donor fund can be used for sustainable institution building; Micro level success stories can be leveraged into regional/ national policy.	Aid dependency may generate false expectations and opportunism, thus killing local initiative; Sudden withdrawal of aid may jeopardize national plan priorities.
Institutional support from other external stakeholders including government	Early government support and help may facilitate initiation and even take-off under controlled conditions.	Uncoordinated approach of multiple government agencies may hinder more than help through supply of inappropriate institutions.	However, a strong and determined government, as in many developed nations, may follow a cohesive plan to implant a good cooperative network as a benchmark/ standard to the market players to follow.	Too much dependence on external stakeholders invariably affects long-term viability, as is the case of parastatal cooperatives in most developing countries.
Professional management	BOD members taking over the functions of professional managers in many Afghan cooperatives can confer only some short-term benefits.	Absence of professional managers in most Afghan cooperatives kills their enterprise character, thus facilitating elite-capture and ruling out long-term growth.	Top class management if working hand in hand with outstanding leaders facilitates mutual learning, thus reinforcing growth and realizing all the lofty goals of cooperation.	Absence of a strong professional class or lack of monitoring of professionals are certain ways to achieve cooperative failure, thus exposing the system to unfair competition.

Value-addition & marketing perspective	Dairy cooperatives, nourished by international agencies, seem to have taken this perspective.	Lack of awareness & affordability of quality products by general consumers, on the one hand, and absence of a professional class to promote brands, on the other, weakened this approach.	High intrinsic qualities of several Afghan horticulture products, in particular, with high demand at home and abroad are only to be tapped.	If not tapped on time, the market for premium products may be lost forever to unscrupulous traders and established multinational brands across the border, while farmers getting non-remunerative price may discontinue production.
Demand for institutional changes from main internal stakeholders	Mostly missing	Members with poor economic conditions mostly unaware of institutional needs; BOD members often performing executive function, thus ruling out any demand from management profession; government and donor interference often too high.	Awareness creation and empowerment of members under autonomous leadership and with effective lobbying activities can generate the right demand.	Vested interests among BOD members often ruling the roost.

Though apparently a legal framework for agricultural cooperatives is put in place keeping in view the above-stated SWOT analysis, it is at most a necessary condition, but hardly sufficient for cooperative success. A large number of stakeholders both inside and outside of cooperatives must provide the necessary support and services within an appropriate governance structure to realize the high goals of a cooperative system of conducting business. It is because of realization of this underlying logic the present dissertation decided to highlight the role of cooperative governance alongside broad based stakeholder cooperation as fundamental to cooperative success. In view of this, the current dissertation has briefly enlisted below in Table 8.2 the agenda for comprehensive cooperative reforms in the context of Afghan agricultural cooperatives, keeping in view the interests of both internal and external stakeholders to such organizations, so that vibrant cooperative governance becomes a reality.

In Table 8.2, a snapshot of an agenda for comprehensive cooperative reforms in Afghanistan based on discussion in preceding chapters and sections. As pointed out earlier, cooperatives have both internal and external stakeholders. The most intimate internal stakeholders – the member-patrons and their BOD members constitute the demand side of institutional changes, as they are to articulate their demand. A good

governance structure like the same for private corporate business often internalize externality by taking at least some representatives of cooperative employees and management on the BODs. Only if the internal stakeholders can articulate and press their demand properly, the support service suppliers – mostly government agencies - will respond properly and on time. Friendly and organized community groups, though external stakeholders, can reinforce the internal stakeholders' demand for institutional changes. Coordination across various support service agencies – both inside (across several Ministries and even across various Departments within the same Ministry like MAIL) and outside government (e.g, organized agricultural credit suppliers (currently non-existent), foreign donors, cooperative education, training, research and extension agency) -- is the crying need at this moment for agricultural cooperatives.

Even though DACD will probably continue to be the nodal agency for meeting all support service needs of the cooperatives, it must be sufficiently empowered with the current Ministerial set up so that it can negotiate (besides monitoring) not only with other Ministries, but also with other external agencies including foreign donors and other bodies to ensure that all cooperative needs are suitably met on time. Several important points need to be made in this context. First, cooperative education, training, research and extension, which needs maximum strengthening in the interest of properly articulating cooperatives' demand for institutional changes, may sooner or later be entrusted to independent autonomous institutions. Second, similar point can be made about an independent and autonomous National Agricultural Development Bank and Insurance Agency. Third, another National Coordination Committee for Cooperatives with representation of various Ministries and Departments must be launched, where representations from cooperatives and their allies like environmentalists, women groups, trade unions etc. should be present to safeguard the interests of cooperatives from civil society side. With evolution of higher tier cooperatives, their representation and voice would be stronger and stronger, resulting in most cooperative support services being demand-driven, rather than supply-driven, as is the situation right now. To match demand and supply, foreign donations too may be routed through the same Coordination Committee.

Table 8. 2: Agenda for Comprehensive Cooperative Reforms from Relevant Stakeholders' Viewpoints

Internal/external Stakeholders	Major concerns	Observed lacunae	Items for reforms
10. Farmer-Members & General Assembly	To maximize benefits for owner-users	Lack of awareness and empowerment	Membership eligibility criteria, Awareness and empowerment, Experience gathering thro' exposure visits, Safeguard against elite capture
11. BOD Members	To serve member goals through interface with management and other stakeholders	Lack of expertise/domain knowledge and Business orientation	Fixation of responsibilities, Exposure to domain knowledge, Leadership development
12. Employees & Management	To manage and promote member business and policy implementation	Lacking professional skills to excel in business	Autonomous Cooperative Service Commission, Winning them over thro' incentives; Initiation of cooperative business development planning.
13. Government Service Providers	To provide enabling environment & rule out opportunism	Lacks coordination and initiative	National Coordination Committee of Cooperative Service providers with cooperative representation; Must also look into issue of cooperative taxation
14. Capacity-building organizations	To promote enlightened perspective and Skill Enhancement	Non-functional - merely existing for name's sake	Setting up of autonomous National Cooperative Education, Training & Research Institutes
15. Credit & insurance	To offer customized products and services	Mostly absent	Establishing autonomous National Agriculture Development Bank and Insurance Agency
16. External Donors	To provide capital and technical know how	No fall back arrangement, Failure to upscale successful pilot projects	Demand for & supply of donor support to be routed through National Coordination Committee
17. Organized interest groups within community	To promote a broad based brotherhood in mutual interests and for purpose of lobbying	Hardly any bridge is built	Setting up of state level advocacy groups with National Union of Cooperatives as apex body (to be established, if non-existent).

Section 8.6: Future perspectives

The cooperative form of organization was born as an offshoot of capitalistic and not socialistic development in the pursuit of social and economic democracy, when the latter began to be severely undermined by the institutions of capitalism. The notion of governance structure was similarly first articulated in the context of private corporate business, when modern developments in organization theory pointed out erosion of property rights of major stakeholders due to observed separation between ownership and control of such organizations. The notion of cooperative governance is an extension of

the same pursuit in the context of cooperatives to improve performance through asserting the property rights of the concerned stakeholders in a concerted collective action process. Obviously, both the demand side and supply side players would need to assert the required institutional changes. Unfortunately, in war-ravaged Afghan agriculture, the demand side stakeholders are often unaware of the complexities of a cooperative form of business and can't often assert their demand, whereas the Afghan government being new, weak and under overriding considerations of law and order and national security are yet to gather enough capability to deliver the requisite institutions for sustaining the farmer cooperatives, even if they are in existence. So, following the detailed deliberations in the preceding chapters and sections, the current dissertation has reached the stage of spelling out the following set of recommendations as future perspectives – mainly and initially to articulate and fine-tune the supply side of required institutions, but ultimately to empower the demand side so that the necessary changes become effective and sustainable due to close monitoring by the most intimate stakeholders on the demand side of cooperative governance. These recommendations/future perspectives are presented below, while pinpointing in parentheses which agencies should be responsible for implementing the suggestions: -

1. To highlight the importance of the cooperative mode of organization in rejuvenation of Afghan economy, in general, and Afghan agriculture, in particular, the country's Constitution through a suitable amendment must recognize and safeguard cooperatives and cooperators such that cooperatives can maintain their distinct identity within the private economy and don't degenerate into parastatal organizations (*The Afghan Government, and DACD and proposed National Cooperative Union (NCU), in particular*).
2. To reinforce the first point, to avoid possible future confusion and to providing guiding lights to all stakeholders on all matters of cooperatives, Cooperative Definition, Cooperative Identity and Cooperative Principles, as stipulated by ICA must be incorporated in the Preamble of any cooperative legislation (*DACD, proposed NCU and all cooperative stakeholders*).
3. Cooperation should be part of general education starting from school level not only to create general awareness of the people, but also to help sustain common people 's interest in such organizations. This education should ideally include the basic knowledge about Cooperative Identity, Cooperative Principles and their implications and relevance for not only Afghan agriculture, but also for the whole modern world, together with exemplary illustration from Afghanistan and elsewhere in the world (*DACD, Ministry of Education, Cooperative Management Institute, proposed NCU*).

4. It is high time to promote an autonomous National Institute of Cooperative Management (NICM) with regional branches for providing cooperative education, research, training and extension services, which must assess and cater to the needs of multifarious stakeholders at different levels to influence both quantity and quality of institutional arrangements for cooperatives not only from the supply side (through training of supplying agencies), but also the demand side (through training of internal stakeholders). Moreover, to create a taste for well-functioning cooperatives with appropriate governance structure, occasional exposure trips to outstanding cases must be arranged for selected groups of stakeholders, besides creating some outstanding cases for cooperators to see and learn from. For this purpose, a thorough over-hauling of the existing structure – maybe with support from international agencies - is needed. Not only should DACD be strengthened and empowered, but also it must be supplemented and clearly monitored by a National Coordination Committee for Cooperatives (NCCC) with over-arching powers to synchronize the activities and policy making across several relevant Ministries and Departments within any Ministry, given poor coordination as at present. This body must be adequately represented by powerful elements not only from Ministries and Departments, but also from the proposed NICM and NCU, besides the Civil Society organizations. Presidential approval may be needed to constitute an appropriate committee to work out the details of these two proposed institutes (***DACD and all Ministries directly or indirectly associated with Cooperatives***).
5. The faculty of NICM by themselves or in collaboration with top technology institutes must offer several teaching and training programs at multiple levels to cover diverse subjects like marketing, book keeping, financial services including banking, insurance, taxation and investment, farm management, business policy and strategies, regulation, team building and institute building activities, SME sector development, cooperative legislation, negotiation and communication, contracting, collective action, strategy building and leadership development, entrepreneurship development, technological and organizational innovations, mergers, acquisitions and other expansion strategies, management information services, international trade and competitiveness strategies and related areas, so that NICM becomes the depository of all relevant knowledge to take the cooperatives forward. They must offer different custom made degree, diploma and short-term programs for different layers of officials of service-providing organizations as well as for cooperative members, board members, employees and managers. Appointment of managers and employees may be made contingent upon attainment of specific skill levels at NICM (***DACD, NICM and NCU***).

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6. NICM must be ready to provide a basic training to all associated with cooperatives to achieve salience and competitive edge over rivals. The cooperators must be trained to assess domain centrality as well as member centrality – that is, to be able to produce with whatever resources are available within the domain of members and supply at a competitive price, on the one hand, and to be able to meet all requirements of the members at a competitive price, on the other. At the same time, a cooperative can survive if its members would have solid reasons to feel better off with their dealings with a cooperative than without, and also they are better off as a member rather than as a non-member. These fundamental checks must be trained and built into the culture of cooperatives to ensure that they always pass these tests and don't fail (*DACD, NICM*).
 7. As cooperatives are especially deficient in capital, revival of the National Bank for Agricultural Development with regional branches must be accorded the topmost priority. Even if a separate National Cooperative Bank is not possible in the short run, the former must have an exclusive and powerful cell to cater to the needs of all cooperatives to make sure that the sincere efforts of farmer members don't get lost due to non-availability of credit at a reasonable rate. H E President of Afghanistan, Ashraf Ghani has called for establishment of a specialized bank for agriculture in the country - apparently with the aim of providing easy access to credit and boosting up agricultural production. Pending the establishment of this Agriculture Development Bank, the US AID-funded ADF may be persuaded to consider providing finances to the agricultural cooperatives so that the chronic credit problems of the cooperatives are at least temporarily taken care of (*DACD, Ministry of Finance*).
 8. DACD and the proposed National Coordination Committee for Cooperatives must ensure that SHGs, Associations and cooperatives, whose promotions are now entrusted to different Ministries, are treated similarly, as these organizations have the same objective of achieving self-reliance. In fact, if properly nourished under a cohesive policy regime, SHGs and Associations of farmers can logically lead to formation of cooperatives. Inadvertent policy must not disturb this natural process (*DACD, proposed NCCC*).
 9. Although cooperatives have a built-in principle of 'open membership', it should not be totally unconstrained to encourage opportunism and resulting fall of cooperatives – at least at the level of primary cooperatives. Primary cooperatives can stand only if the members patronize them to produce the minimum feasible scale. Similarly, unless BOD members

behave responsibly as a member in the first place, and assume fiduciary responsibility⁶⁴ for their actions, the Board can never produce the desired governance structure. So, it is high time to stipulate in the bylaws appropriate eligibility criteria for members and BOD members (*DACD, Law Ministry*).

10. Under Article 4 (1) of the Afghan Income Tax Law, 20% uniform tax is charged on the taxable income. Taxable income is the income after subtracting deductible expenses in accordance with this law. This is in sharp contrast to the prevailing practice of at least developed countries not to impose double taxation (as in case of private corporate business) on cooperatives, which means that primary cooperatives are tax-exempt if they qualify for doing mostly member business (whereby only a certain percentage of non-member business is allowed) while the tax burden is directly imposed on cooperative members based on their patronage income. The same formula ought to be applied to Afghan cooperatives, considering their nascent stage and especially when the tax collection is negligible, it is probably not worth to allow it to become a hurdle. An alternative line of argument could be to consider a progressive rate, say, 0% up to a point, 5%, 10%, 15%, 20% etc. at different slabs of profit. Exemption may also be given to the cooperatives during the initial five years of inception (nascent industry status), and also during force majeure, when the volume of business becomes too due to slack. The BRT (4%) is another deterrent for the small producers, who as a result shy away from the cooperatives. The agricultural cooperatives need to be given a priority status through exemption of BRT, when the government policy is to encourage cooperatives as first priority in a war-ravaged economy. Moreover, BRT ought to be applied on net value added, rather than on gross turnover, as the common trend all over the world. Moreover, if the cooperatives post a gross loss due to reasons beyond their control (force majeure), they should be exempt from this tax (*DACD, Finance Ministry*).
11. The donor support to the cooperatives seem to be working reasonably well during the tenure of the project. The management of the recipient cooperatives however feel uncared post completion of donor assistance due to absence of suitable alternative support mechanism during the period of transition from donor to concerned departments of MAIL. Somehow, the management capacity including the technical skills that are created under the supervision of the donor agencies are not strong enough to sufficiently empower them to run the show

⁶⁴ It means responsibility to bear losses to the organization due to their decisions as Board members.

after support from the donor agencies is withdrawn. The transition from donor to the concerned department of the government is not seamless. As a result, the vulnerability of the cooperatives becoming sick increases neutralizing whatever positive impacts these aided projects had created in the society. To avoid these vacuum, more formal arrangements need to be created among the DACD, the concerned department and the donor agency, besides appropriate documentation of the aided processes and their positive impacts to facilitate future learning. The proposed NICM may fill in this vacuum through research and documentation (*DACD, MAIL, Donors, NCCC and NICM*)

12. Although the Draft Law of 2013 has encouraged single commodity cooperatives over multi-purpose ones, apparently to emphasize the collective action benefits of a homogeneous group of farmers, the fact is that the scale is still not large enough to justify formation of several single-commodity primary cooperatives in a small geographic area. Even within a single-commodity primary cooperative, heterogeneity across large and small farmers is inevitable. So, cooperatives can't depend exclusively on the homogeneity argument, logrolling effect or complementarity across heterogeneous groups must also be tapped⁶⁵. This is especially true when primary single-commodity cooperatives too require necessary backward and forward linkages in input procurement and processing cum marketing, respectively. So, over-emphasis on a single commodity business may hurt rather than help the cause of cooperatives. Even if single commodity primaries are vertically integrated with higher-tier bodies, for purpose of lobbying for the cooperative sector as a whole, some horizontal integration becomes absolutely necessary. Actually, as cooperators across the globe are insisting upon, cooperatives must tap the mutuality of interests not only across other cooperatives under the celebrated principle of 'cooperation among cooperatives', but also across allies of cooperatives like environmental groups, trade unions, women groups etc. To achieve that multi-purpose goal, a National Cooperative Union (NCU) may be launched where several single commodity cooperative federations and friendly forces may join hands. DACD, the proposed NCCC and the donors too may join hands to promote such a brotherhood form of organization (*DACD, proposed NCCC, Donors*).
13. Primary cooperative must sooner or later promote processing cooperatives to achieve value-addition on primary produce and marketing of value-added products in premium markets. It means as time passes, technology and innovations would become the engine of growth of

⁶⁵ This complementarity between small and large farmers in successful sugar cooperatives of Gujarat and Maharashtra in India is highlighted by Baviskar and Attwood (1990)

primary agricultural cooperatives⁶⁶. Keeping that in mind, the stakeholders of Afghan agricultural cooperative must create a suitable space for the institute of technology and innovations in their governance structure (*DACD, NCCC, NCU & Technology Institutes*).

14. The Government of Afghanistan will need to create an enabling policy framework to protect domestic industry from unfavorable competition from cheaply imported commodities mirroring the growth of cooperatives. The dairy industry is a case in point, as observed during the field study. Similarly, grape export has been impacted due to non-tariff barriers. While devising import and export policy, the interests of the domestic industry must be kept in mind as a large number of cooperative members often suffer from adverse exim policy implications. Not only DACD and proposed NCU must use the forum of NCCC to protect the interests of cooperatives (*DACD, NCU, NCCC and Commerce Ministry*).
15. Last but not the least, to make sure that cooperatives can survive the test of time, without getting overpowered by strong market organizations or under government pressure, a cooperative leadership development program must be in place in the proposed NICM to promote spontaneous growth of leaders cum cooperative entrepreneurs. To launch such a program, the proposed NICM should seek assistance from international organizations as well as friendly countries, where the accounts of such tall leaders are available (*DACD, proposed NICM*).

Take away lessons

If we are to sign off from this exploratory research, we observe that at the initial stage we concentrated on developing a broad understanding of the agrarian institutional issues in Afghanistan, and realized that there are vacuums in its institutional set up, but at the same time, market led agricultural development could not be an alternative to drive growth. In our quest for exploring an appropriate institution, literature review was undertaken to appreciate how farmer managed and farmer controlled institution like agriculture coop have steered agricultural growth and adding value to farmers' produces elsewhere in the World. Taking clues from the organizational modalities, governance structure, legal framework, stakeholder participation and other support services, evidence of which was available from literature review, broad objectives of the research was firmed up with the purpose of connecting these objectives with country specific development goals. These were then translated into certain testable

⁶⁶ The celebrated dairy brand AMUL from India becomes a case in point.

hypotheses, as part of research requirements, for validation. The methods and material used for validating the hypothesis were a mix bag of qualitative and quantitative approaches.

Based on the hypotheses to be probed, a conceptual framework of identifying direct and indirect stakeholders and internal and external stakeholders in the coop institutions were identified and how they are involved in the transformation process were analyzed, conforming to the necessity of testing the first hypothesis. In addition, engagement of stakeholder in coop institutions was also ascertained taking into consideration second hypothesis of the research. The third hypothesis was examined from the insights derived out of analysis of case study data as also through volume of references available from different government publications, manuscripts, and from the outcome of intensive workshops with DACD personnel. Therefore, all three hypotheses have been tested conclusively from a mix of primary data which have further been supplemented by the insights gained through the interactions of key informants, and other actors involved in the process. Secondary evidence that were available have also been considered to conclude on the hypotheses of the research.

The thesis then arrives at certain set of actionable recommendations as future perspective of coop development and clearly distinguishes the roles and responsibilities and the reforms that are needed to kick start a focused agenda of coop development. For the requirement of academic fraternity, the present exercise underscores the areas requiring further research and sensitization of the political agents, bureaucratic set up, opinion leaders and development activist including the NGOs and donors for systematic development of coop as institution of agricultural development, benefitting the impoverished and hard- working farmers of Afghanistan.

The thesis ends with an appropriate quote made by a five- member Division Bench of the Hon'ble Supreme Court of India while passing a judgment on Constitutional authority between the Lt Governor of Delhi and Elected Government of Delhi (July 4, 2018).

“NATION FAILS IF GOVERNANCE FAILS”

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Annexures



Annexure 6.1: Checklist & Questions used for Case Study

1. Institution & Membership:

1. Why the farmer-members felt the need of a cooperative?

2. When was it established first and also when the license was obtained from DACD?

3. What are the agricultural commodities this cooperative deal with?

4. What is the total number of members (Active/Inactive)? Also women member, if any.

5. What is the growth of membership during last three years?

6. What is the type of farmer-members (Small/Medium/Large farmers)?

7. What is the total share capital of the Cooperative?

8. How your cooperative sources funds for business?

9. Is there any assistance form donor agency?

10. If yes, who is then donor partner (like CARD F) and principal donor (like DFID)?

11. For how many years and amount of assistance received thereof?

Business:

1. Is the Business Plan in place in the Cooperative?

2. Is the cooperative seasonal or operates round the year?

3. What was the volume of business during 2014-15, 2015-16 & 2016-17?

4. With whom cooperative has relation in marketing their produce?

5. How the quality of the produce measured and maintained? (like, A Grade, B Grade etc)

6. How is the price of produce paid to the members?

7. What is the penalty in pricing system?

8. How members are paid for produce (cash/through bank)?

9. What is the frequency of payment to members?

10. Do you have any storing/processing Plant?

11. What are your fixed asset and value thereof?

3. Services:

12. What are the inputs and services rendered for the member by the Cooperative?

13. How the inputs are priced and system of payment by the members (cash/credit)?

14. Who provides services to cooperative/members?

15. Who facilitates extension/awareness programmes?

16. Is there any extension/awareness programme by the cooperative in this year?

4. Governance:

17. Are all the BoD and Supervisory Board members active?

18. How many Board of Directors meeting held in 2016-17.

19. Did all the BoD members attend the Board meetings regularly?

20. Whether the minutes of all the meetings are noted in Minutes Book?

21. How many General Assembly meetings held during 2016-17?

22. Are the minutes of the General Assembly meeting noted in register book?

23. What are the relations between your Cooperative and Provincial DACD/ DACD HO?

24. Do you have relation with any other agency?

5. Audit & Accounts:

25. Who audits the books of accounts of the cooperative?

26. What is the process of audit and what is the frequency (Quarterly/half-yearly/yearly)?

27. How many paid employees are there and their remuneration?

28. What was the Gross profit and net profit during these years?

29. Is there any penalty for delay in audit?

6. Grievance Redressal:

30. What are the general grievances of the members?

31. How these are addressed?

What is the role of the DACD/Department/Other agency in grievance redressal?

Annexure 6.2: List of sample cooperatives

Cooperative Name	Contact Person	Location			Type of Cooperative	Donor
		Province	District	Village		
Already registered cooperatives						
Kata Khana	Sayed Ahmad Husain	Bamyan	Yaka Olang	Kata Khana	Bee Keeping	PSA
Etihad	Mohammad Alim	Kapisa	Nejrab	Deh Qazi	Bee Keeping	BAHDP
Shefaf	Najmuddin	Balkh	Dehdadi	Zer-e-Nahr	Animal Meat Producers	NOP
Sahak	Kheyal Mohammad	Paktiya	Zurmat	Sahak	Dairy	ORCD
Hindukush	Dr. Abdul Khalil Rahmani	Baghlan	Doshi	Center	Chicken producers	Afg Khan Fu
Hazrat Imam	Haji Abdul Hameed	Kunduz	Imam Sahib	Shor Kul	Cotton Producers	NEASP
Aushturka	Abdul Maalik	Parwan	Sayed khil	Sayed Khil	Dairy	
Pamir	Roozi Mohammad	Badakhshan	Wardoj	Shakeran	Bee Keeping	

List of cooperatives under the registration process

Cooperative Name	Contact Person	Location			Type of Cooperative	Donor
		Province	District	Village		
Armaghan	Mohammad Rahim	Daykundi	Center	Center	Horticulture / Dairy	ACF
Nangarhar Plant Process	Abdul Malik	Nangarhar	Jalalabad	Jalalabad	Horticulture	
Yadgar	Najea Ghafarzada	Balkh	Nahr-e-Shahi	Nahr-e-Shahi	Horticulture	GIZ
Vegetable process	Zahra Afzali	Balkh	Ali Abad	Ali Abad	Horticulture / Dairy	GIZ
Behsod Benegah	Noor Rahman	Nangarhar	Behsod	Behsod	Dairy	
Gulistan	Haji Jafar	Balkh	Center	Center	Horticulture	NHLP/NSDP

Cooperative Name	Contact Person	Location			Type of Cooperative	Donor
		Province	District	Village		
Ulfat	Haji Ab. Maluk Dostyar	Herat	Karokh	Karokh	Green Producer	
Mulana Ab. Rahman Jamea	Haji Ghulam Yahya	Herat	Center	Center	Cotton Producer	
Zerati Markazi	Mujadadi	Logar	Center	Center	Horticulture	CARD-F
Qaraqul	Humaira	Faryab	Andkhoy	Andkhoy	Poultry/Bee keeping	NCA
Pashtun Kot	Bebe Jan	Faryab	Pashtun Kot	Pashtun Kot	Animal Wool	NCA
Qurban	Nasrin	Faryab	Andkhoy	Andkhoy	Animal Wool	NCA
Etihad	Haji Allauddin	Kandahar	Center	Center	Horticulture	FAO / ORCD
Bahar-e-Kalafgan	Mohammad Shah	Takhar	Kalafgan	Kalafgan	Bee Keeping	
Khatiz	Mohammad Nabi	Nangarhar	Jalalabad	Chawok Hada	Dairy	

Annexure 6.3: Structured Questionnaire used to interview Cooperative Members

- What is your education background? ☐ Illiterate ☐ Primary ☐ Secondary
☐ Higher education
- What is your status in the Cooperative? ☐ Ordinary member ☐ BOD member
- When did you join the cooperative? (Year)
- Different Assets owned by your family:

Agriculture land (Jerib)*		Livestock (NO)				
Owned land	Leased land	Cow	Goat	Sheep	Chicken	Others

*One Jerib = 2000 m²

- What crops did you grow last year?

No	Name of Crops	Area cultivated (Jerib)	Production (seer)*	Sold to (Seer)		Amount Received (AFG)	
				Cooperative	Others	Cooperative	Others

* 1 Seer = 7 Kgs

- Did you ever contribute voluntarily for this cooperative? Yes ☐ No ☐
If Yes, in which manner (describe)

- How much Equity Capital (AFG) have you contributed to this Cooperative?

Year	Equity Capital (AFG)
2015	
2016	
2017	

- Which Agricultural Inputs did you receive from your Cooperative?

Fertilizer – 1	Seeds – 2	Chemicals – 3	Machineries – 4	Hive – 5
Wax – 6	Protected Cloths – 7	Winterization – 8	Cows – 9	Barn yard – 10

- What other services did you receive from this Cooperative?

- Who were the service providers in your village(Extension, Health, Education, Drinker water, etc)

- Do you know about Cooperative General Assembly? Yes ☐ No ☐

a. Did you ever attend General Assembly Meetings? Yes ☐ No ☐

b. Did you raise any issues in the Cooperative General Assembly?
Yes ☐ No ☐

If yes, what was the issue?

c. When was the last Cooperative General Assembly Meeting held that you had attended?

d. Could you remember what were the significant Agenda Points discussed?

e. Were the Cooperative General Assembly meeting decisions implemented?

Yes ☐ No ☐

f. In your Cooperative, decisions are taken

☐ Collectively ☐ Individually ☐ by Director ☐ by Management Committee

12. Do you desire to become BOD member in future? Yes ☐ No ☐

13. Do you want the Cooperative to diversify from its present activity? Yes ☐ No ☐

If yes, in what manner -----

14. Did you receive payment from the Cooperative on time? Yes ☐ No ☐

15. At what frequency did you receive payment from your cooperative?

☐ Monthly ☐ Quarterly ☐ Annually

16. Are you satisfied with the payments? Yes ☐ No ☐

17. Do you want to support/patronize this Cooperative or you want to switch to other form of business?

Yes ☐ No ☐

18. Does your Cooperative contribute towards development of the society? Yes ☐ No ☐

If yes, please describe -----

19. In your opinion, what problems your Cooperative is facing?

20. Do you face any problem with your BODs?

Yes

☐

No

☐

If yes, please explain

21. What is your perception about your Cooperative?

22. Did you raise, above problems in Cooperative General Assembly?

Yes

☐

No

☐

23. What are your expectations from the Cooperative?

24. Do you know about your Cooperative by-laws?

Yes

☐

No

☐

25. Did your Cooperative organize any training program?

Yes

☐

No

☐

If yes, did you attend any training or awareness program conducted by your Cooperative?

Yes

☐

No

☐

Annexure 6.4: Structured Questionnaire used for interviewing BOD members

1. What is the Date of Establishment of your Cooperative? (-----)
2. What was the purposes for establishing this cooperative?

3. In which sector your cooperative has been working?

4. How is the capital mobilized?

- ☐ Only Members Equity
 ☐ Members Equity + Donor
☐ Members Equity + Donor+ Government
 ☐ Member Equity + Government
☐ Others

If Donor information is mentioned, Please give details of Donor in table below:
Identification of Donor

Name of the principle Donor

Name of Partner with Principle Donor

Name of the Implementing Donor

5. Is there any other cooperative with same at the same location? Yes ☐ No ☐

6. How did the members of the cooperative join?

- ☐ Voluntarily
 ☐ At the request of others
 ☐ Both

7. How many members does your cooperative have?

Year	Total Members	Women Members	Men Members
2013			
2014			
2015			
2016			
2017			

8. How is the Cooperative Board formed?

- ☐ Elected
 ☐ Nominated

9. How many members constitute a Board?

Please give details of all members in table below (Only Chairman should answer the following Table)

No	Name	Position	Age	Sex F/M	Qualification (illiterate/ primary/ secondary/ higher education)	No of times represented the board	Years of Experience	Mobile NO
1								
2								
3								

4

5

10. How is the Supervisory Board formed?

☐

Elected

☐

Nominated

11. How many members constitute a Supervisory Board?

Please give details of all members of Supervisory Board in table below;

No	Name	Position	Age	Sex F/M	Qualification (illiterate/ primary/ secondary/ higher education)	No of times represented the board	Years of experience	Mobile No
----	------	----------	-----	------------	--	-----------------------------------	---------------------	-----------

1

2

3

12. How is the Director of your cooperative appointed?

☐

Through election

☐

Appointed

13. What are the routine functions of CEO?

14. Do you have autonomy to decide normal day to day functions?

☐

Yes

☐

No

15. Please provide information about Share Capital and other capital base ,and number of members of your Cooperative

Year	No of Members	Share Capital (AFG)	Other Capital
2013			
2014			
2015			
2016			
2017			

Business

16. What is the price of one Share in AFG?

17. Do your Cooperative have by-laws?

☐

Yes

☐

No

If **yes**, by-laws are prepared on the basis of:☐

Previous Cooperative law

☐

Amended Cooperative law

18. Have the BOD members have attended Technical Training Program to build their capacities?

☐

Yes

☐

No

If Yes, which fields were covered under the Training Program?
Regarding cooperative principles

- ☐ Technical agricultural information
- ☐ Financial issues
- ☐ Marketing
- ☐ Others

Who provided the training?

☐ DACD

☐ Donor

☐ Others

If Donor is mentioned, please give details of Donor in table below (Only Chairman should answer the following Table)

Identification of Donor

Name of the principal Donor

Name of Partner with Principal Donor

Name of the Implementing Donor

19. Do you know what Business Plan is? Yes ☐ No ☐

If **yes**, please tell how Business Plan is prepared?

20. Do you have ability for papering Business Plan by yourself or need support from outside?

Yes ☐ No ☐

21. Where do you sell your Cooperative's produce and how do you decide?

22. Did you submit all required document in writing to DACD's Provincial Office for evaluation and filling?

Yes ☐ No ☐

23. What are your problems on the following issues

Problem Areas

Description of Problem

Technical knowledge
about production

Agricultural Input

Capacity Building

Marketing

Finance

Loan

Others (specify)

Procedure	Description
Purchase register	
Ledger Book	
Inventory book	
Stock register	
Membership register	
Others	
24. Does your cooperative pay taxes to the Provincial Government office?	Yes <input type="checkbox"/> No <input type="checkbox"/>
If yes, please narrate the procedure that you follow?	

25. Did you receive License for your Cooperative from the Provincial office of DACD?	Yes <input type="checkbox"/> No <input type="checkbox"/>
26. Do you organize General Assembly meetings for your Cooperative?	Yes <input type="checkbox"/> No <input type="checkbox"/>
a. If yes, when was the last General Assembly Meeting organized?	
27. Could you please tell us about important decisions taken in last General Assembly meeting, and how they were implemented?	

28. Did you face any problem with DACD?	Yes <input type="checkbox"/> No <input type="checkbox"/>
If yes, please explain	

29. Does your cooperative have a bank account?	Yes=1, No=0
30. For day to day management what processes are being followed for the following activities	
31. In your opinion, if private business is compared with the Cooperative Business, then which one is more efficient and why?	

32. Whether you submit timely annual narrative report & financial report to Stakeholders?	Yes <input type="checkbox"/> No <input type="checkbox"/>
33. How has the profit of your cooperative been distributed?	
a. Proportion base share capital b. volume of business transacted c. fixed amount	

34. Does your Cooperative have any long term plan for Cooperative Development and expansion?

Yes ☐

No ☐

35. Are you able to prepare annual Balance Sheet and submit on time to the financial department?

Yes ☐

No ☐

36. How do you address the need of a member?

a. One to one basis b. through meeting c. through group consultation

37. Please List the issues that you have with DACD?

N	Issues	how you deal
---	--------	--------------

38. What are the activities that your cooperative has undertaken on social issues (pollution, health, drinker water, resolving conflict, others) - specify?

39. In your opinion, what are the important suggestions that you would offer for improvement in the functioning of the Cooperative?

Annexure 7.1 (a) The Badakhshan project of CARD F

The CARD F project in Badakhshan was implemented under a joint entity established under the auspices of Agriculture and rural development (ARD) Cluster Ministries, four government Ministries tasked with overseeing rural development in Afghanistan. The objectives of the project were to establish greenhouses and associated production, build bioclimatic stores, improve production of high value field crops, improve apiculture (honey production), and establish producer organizations.

An independent mid-term evaluation study, conducted during 2014, observed that by end of 2014, underscored significant achievement of the project. More than 80 greenhouses had been constructed in 2 districts with farmers using them to grow tomatoes and cucumber that were marketed locally providing significantly increased incomes. About 500 farmers had been trained in the production of potatoes and onions using improved production techniques. In addition, yields were sufficiently higher, most of the onions were exported to Tajikistan at good prices. Potato crop also yielded higher productivity, though lack of cold storages did not enable the farmers to realize their full potentials. The honey producers were also benefitted, with about 150 honey producers produced about 20 tons of honey, and part of this production had been exported.

However, it observed some basic issues related to technical knowhow of the local farmers, non-availability of trained technician for repair and maintenance of the greenhouse in case of fault, damages on account of storm, which are related to sustainability, once the project tenure is completed. Temperature control was the biggest problem the farmers faced in managing the greenhouses, especially on hot days, it was difficult to keep the greenhouses cool enough for the plants'- the report observed⁶⁸. The project report also observed that institutional development in respect of formation of farmers' organization for establishing forward linkages with the market was inadequate, and observed efforts required to make up for the deficiencies.

After the completion of CARD F project tenure, as per the agreement, MAIL was supposed to supervise the project, which appeared to be a concern, as capacities within the MAIL was not strong enough to take the project to its logical goal. This was observed to be a serious issue as there were high risks of investments made by the international community being lost, unless an organizational structure of the government institution was given the responsibility to continue with the program, local capacities are improved and gaps in implementation process are overcome.

The foreign aided projects seem to suggest that during the tenure of the aid period there have been modest progress on the key result areas of the project objectives while they tend to suffer once the tenure of the aid is completed. While during the project phase the sponsoring institutions mobilize requisite technical expertise, provides funds, supervises progress and create conditions for unhindered growth and hand hold the projects, the commensurate support from the local Ministries or departments are so weak that they tend to suffer and jeopardizing sustainability. The capacity development of the local project staff also becomes an issue, besides availability of resources. The two dairy unions studied appear to be maintaining a low and moderate level of sustainability, while the CARD F project

⁶⁸ Simon Foster (2015)

od Badakhshan seems to suffer from mentorship issue, as if it is left to itself for fending. This is a serious issue neutralizing whatever positive impacts the project had generated appear to be getting wasted without any further improvement. The agricultural cooperative projects have also suffered in similar fashion.

Many NGOs, aid agencies and philanthropic organizations are working independently, by passing the government machinery, and creating anarchy of operation. Unfortunately, the national government lacked capacities to monitor and supervise use of foreign aid for agriculture and rural development including aid to agriculture cooperatives. Log bureaucratic procedure for project approval and lengthy procurement process also hamper disbursement of project funds. This is also compounded by the fact that there was no system and procedure to offer services and credit linkage to the cooperatives from the government.

Annexure 7.1 (b): Operation Flood Dairy Project of India

In the case of Operation Flood project for dairy development in India, however foreign aid has produced remarkable results following cooperative model of development which deserves mention. During Operation Flood, the European Economic Community (EEC) donated surplus dairy commodities to India and the World Bank, as well as some bilateral donors, provided soft loans and grants as financial support for this intervention. The program was implemented through three phases during the whole period of period 1970-1996 (Phase 1: 1970-1981; phase 2: 1981-87; phase 3 1987-96). The total investment of INR 16 billion or US \$1 billion dollars, estimated at the time of the intervention, was divided into three large categories: 50 percent loans which India has been repaying since Operation Flood, 40 percent commodity aid from the EEC, and 10 percent investment of the National Dairy Development Board's (NDDB) own resources. Operation Flood used donated dairy products was unique- - it was the first time food aid was viewed as a critical investment resource. The Indian people established credit worthy businesses and these cooperatives helped India achieve milk self -sufficiency. India used aid for development where commodity aid was monetized and funds were used to finance dairy infrastructure, without affecting the domestic price of milk thus safeguarding the interests of the vulnerable farmers and at the same time building internal resources to fund investments in dairy development⁶⁹.

Table 7. 3: European Economic Community aid for Operation Flood, 1970-1996

	Skimmed Milk Powder (tons)	Butter Oil (tons)
Operation Flood I (July 1970-March 1981)	126,000	42,000
Operation Flood II (April 1981-March 1985)	240,000	84,700
Operation Flood III (April 1985-March 1996)	75,000	25,000

Source: Reproduced from Kenda Cunningham 2012

Twenty years after the end of Operation Flood, it is worth taking a moment to re-examine this large-scale intervention

⁶⁹ Kenda Cunningham (2012)

and determine its achievements. India became the largest producer of milk in 1978 and continued to be so during the subsequent years. While the cooperative share of national production is about 10 percent, it does account for around 55 percent of the organized market share. At the time of initiation of the program India's milk production was only 23 million tonnes, increased to 163 million tonnes in 2016-17, attaining a long term growth of over 4% per annum, a remarkable progress never achieved in the history of dairy development in the world! In the process, India attained self-sufficiency in milk production, a transformation from milk deficient country to self-sufficiency. Per capita availability of milk increased from 112 grams per person to 351 grams per person in 2016-17, improving food security through availability of milk.

Operation Flood created a new policy environment in the dairy sector and linked rural and urban populations, introduced market orientation and technological advancements, developed extension services, and supported the growth of cooperatives in a sustainable manner. Through a system of cooperatives, this intervention established some important urban-rural linkages, such as those in key markets of Mumbai, Delhi, Kolkata, Chennai, Bangalore, Hyderabad and many other small and medium towns. Operation Flood established a sustainable dairy development model to increase the production of milk and to increase market access to millions of small milk producers and generate income by organizing them into tree tier cooperative structure. It demonstrated how food aid could be judiciously used to establish domestic capabilities and influence policy environment in a vast country like India by engaging marginal and small producers of milk on a cooperative model where milk producers realize higher share of value from the consumers.

The learnings from India is that foreign aid if used judiciously for building sustainable institutions, which are managed and governed by the farmers organizations duly mentored by professional organization and with enabling policy regime created by national government, a modest project could bring out far reaching impact in the rural society. Foreign aid will have to be used in a manner that it generates long term sustainability of the programs implemented in the recipient country, institutions are to be created, strengthened and governed in such manner that the farmer members receive their value in their transactions with the cooperatives.

Some Related Studies and Documents



Conditions for establishing Farmer's organization in Afghanistan

Each farmer organization has its specific criteria for registration within the line departments.

a) Farmers' group:

- Voluntary union of at least 7 persons
- Has Joint agricultural objectives
- Joint comparable activities
- Payment of membership fee by members to group
- Participation in training programs which are conducting by extension agents prior to registration
- Group registration with DAILs and reception of registrations documents

b) Farmer's Association:

- Voluntary union of at least 10 persons
- No alliance to any registered political parties in Ministry of Justice
- Adoption of association by-law
- Registration of the by-law in directorate of consolidation/coordination, Ministry of Justice
- Payment of registration and membership fees
- Obey by the regulations and disciplines

c) Agricultural cooperatives:

- Voluntary union of at least 11 persons
- Required conditions of becoming as a member, specified in the coops law
- Ensuring the by-law according to coops law
- Payment of defined share in cooperative assets
- Registration of cooperative in the DAIL
- Has the business plan
- Pay income taxes

A. Organizational structure of Farmer's organization

Each farmer organization based on its bylaws must have their specific structure for decision making and running their activities.

a. Farmers' group:

Farmer groups consist of the following bodies for running group activities.

- 1) General assembly
- 2) Head of group

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- 3) Deputy of head
 - 4) Financial officer

b. Association:

The association board/panel is a body designated through a free and or sealed election process

- 1) General assembly
- 2) Board of directors of association (director, deputy, secretary, financial and supervising officers
- 3) Board of management
- 4) Association committees:
 - Admin and structural
 - Financial
 - Cultural and relations
 - Dispute solving
 - Active members

c. Cooperatives:

While agricultural cooperatives are working under supervision and management of the three following bodies:

- 1) General assembly
- 2) Board of directors
- 3) Board of supervisors

B. Function of Farmer's organization

a. Farmer's groups:

1. Effective and efficient use of resources
2. Use of new agriculture technological methods/ approaches
3. Dynamic production activities
4. Collaboration with CDCs
5. Cooperation and with extension agents

b. Farmer's Associations:

1. Seek for assistance from DAILs, partner organizations and social institutions to improve its functions
2. Launch conferences and meetings with CDCs and DDAs
3. Promote production and marketing activities

4. Annual reporting and payment of taxes from sales

c. Agricultural Cooperatives:

1. Technical (production)
2. Marketing (purchase, sale and service delivery)
3. Financial (utilization of cooperative capital)
4. Administration (planning, organization, recruitment of staff, leadership, coordination and M&E)
5. Office management (record of transactions and other related activities in due documents)

C. Financial Affaires

a. Farmers' groups:

Farmers' groups can collect membership fees, grants and debts, also can have a specific bank account

b. Associations:

Associations can provide support to office through collection of members' sales, registration and membership fees as well receipt of grants

c. Cooperatives:

Assets of cooperatives and the associated unions include:

1. Initial capital
2. Reserved capital
3. Special capital
4. Current and fixed assets

Modalities of organizational structure, use of capital and the reserves are predicting/ projecting in the due by-law.

D. Reporting

a. Farmers' groups:

At the end of each year they report their financial activities to relevant DAIL

b. Associations:

They report their financial activities to Directorate of Consolidation/coordination of Ministry of Justice as well as to related DAILs, relevant sectoral department of MAIL and Directorate of Economics at the Provincial level.

c. Cooperatives:

They report their financial activities to cooperative department in DAILs and via them to Directorate of Agricultural Cooperatives Development under MAIL. In addition, they send the same to related Mastufiates (representatives of Ministry of Finance) in provinces as well.

E. Common Issues

1. Voluntary membership
2. Matched and similar activities
3. Alike requirements to different agricultural services
4. Comparable economic, social and cultural objectives

Focus on shared opportunities and or possibilities for livelihood improvement.

Procedures for Establishment of Cooperatives

1. Awareness Program

Provincial DACD staffs prepare a timetable for the implementing and reporting field activities, recording the implementation of propaganda and education program for all villages to establish Cooperative.

- a. What is Cooperative?
- b. What are the conditions for establishment of Cooperative?
- c. What is the importance of Cooperative for agricultural economic development?
- d. How is Cooperative established?
- e. How does a farmer secure the membership of Cooperative?
- f. Financial Systems of Cooperative, etc

After implementing a few regional awareness activities, the provincial DACD staff identifies interested farmers willing to establish Cooperative but what criteria exactly would be used need to be precisely stated. There seems to be virtually no standard training and pedagogic set beside a brief synthesis. The second and last that was said to be used for public presentation - is a short University Lecture written in 2012 on 'History of Cooperative in Afghanistan'.

2. Public Farmers' meeting

Provincial DACD staffs provide information to Farmers regarding the following points:

- a. What are Cooperative and its benefits?
- b. Who controls the Cooperative?
- c. What is the role of Cooperative?
- d. Awareness about primary Cooperative by-laws
- e. What is the procedure for registration of Cooperative?
- f. Who is eligible for Cooperative membership?
- g. What are the rights of a Cooperative member?
- h. What is the responsibility of a Cooperative member?

- i. What services does Cooperative provide to its members?
- j. What is Cooperative Business Plan?

3. Procedures 2014 for establishing Cooperative

When the farmer accepted the regulation of registration and Cooperative law after that they should follow the registration process as under:

- a. Cooperative representative have the responsibility to provide their business plan with the guidance of provincial staff and submit their application regarding the establishment of Cooperative for verifying to provincial management of Cooperative.
- b. Cooperative should determine the temporary Board of Directors not less than 5 persons for providing the documents and follow up the procedures
- c. Provincial management of Cooperative submit the application and Business Plan of Cooperative to DACD for further processing.
- d. DACD officially sends the guidance of Excellency Minister regarding the establishment of Cooperative, after the verification of application and business plan assessment committee to provincial management for prepared the registration documents.

Provincial management of Cooperative before providing the establishment document by Cooperative they conduct the training program for Cooperative members.

4. Training program

- a. It is the responsibilities of provincial management to conduct the training program for those farmers that they got the approval of MAIL regarding the registration of Cooperative for 3 or 7 days on that issue
 - i) Introduction and benefit of Cooperative
 - ii) Purpose of establishment of Cooperative
 - iii) Setup of by -law
 - iv) Role of investment on development of Cooperative
 - v) Functions of Cooperative
 - vi) Condition and procedures for establishment of Cooperatives
 - vii) Efficiency of establishment of secondary Cooperative

Representatives of provincial management should be present in each meeting of Cooperative for guidance.

5. Public Meeting of Cooperative Establisher

- a. Establisher, first of all, will identify temporary secretary, one or two person as Supervisor/(s) of the meeting. Then, they review the report of Board of Director and approve the following issues
 - i. Study and approval of draft Cooperative by-law

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- ii. Propose candidates for the Board of Director.
 - iii. Select a Supervisory Committee
 - iv. Approve a determined share capital for economic activities according to Business Plan
 - v. Authorize the Board of Directors to open a specific bank account in the Cooperative name
 - b. Board of Director collects the share capital and entrance fee as per Business Plan and save in bank
 - c. All Cooperative prepared documents should be submitted to the provincial management of Cooperative by the Board of Directors.

6. Registration of Cooperative

For registration of Cooperatives, the provincial management request such documents from the Cooperative as given below:

- a. Three copies of Cooperative by law
- b. Three copies of application of registration
- c. Three copies of approved Business Plan
- d. Three copies of approval of General Assembly by the establisher.
- e. Three copies report of performance of Board of Directors
- f. Three copies Cooperative members list including share capital and land
- g. Three copies of bank receipt
- h. Three copies of Cooperative Board of Directors & Supervision Committee list
- i. Three copies of survey reports on location and situation analysis of Cooperative activities

7, Provincial Management cooperative

Once the activity permit is issued, keep one copy of all documents in their office and another copy after the signature and consideration by the DAIL Provincial Cooperative Management. The activity permit is delivered to the Board of Director of the Cooperative. A third copy set is officially sent to DACD Directorate by the DAIL Provincial DACD. Following the introduction of these new procedures, the number of re-assessed Cooperatives dropped significantly - from 2,350 in September- October 2014 to a total of 24 entities (introduction of new system) in August 2015. It is noteworthy that wherever external partners support these new facilities, for most of them, there is always a risk of making them weak due to lack of self-sustainability in the medium term.

Standard sets of training documentation for Community Cooperative Awareness are prepared at national level, but these documents appear to be requiring up dates. Otherwise, the main differences between both systems are:

- A.** - As per **Income Tax** Law, Commercial Law, Private Investment Law, the new Cooperative will have to pay yearly a

compound of various taxes – which are further subdivided as follow:

- 2% before selling
- 20% as Income Tax
- 2% as Land Development Tax
- 3% as Commission (?)

B. - Additionally, the older **Cooperative Bank Account** system has been reviewed and simplified

C. - A **Business Plan** must be finalized for registration. The evaluation of level of Cooperative activity is supposedly done annually, according to its full conformity with the Official Registration statutes. Should this conformity not be thoroughly established and documented, DACD could theoretically cancel its official registration. In practice, there is no obvious demonstrated reporting of any such annual review and neither any documented extension / cancellation of Agreement. In any case, this can hardly be done without first developing proper Business Plan and Balance Sheet formats that can be effectively updated and checked. Besides, there is no incentive for registered Coops to do so after one year.

Theory of collective action

The term of cooperation has deep root in the history of mankind and has been considered by different philosophers, economists, psychologist, sociologist and biologists. Today also this word is at the heart of debates between individuals and groups or within a society where he or she is living. When the discussion regarding this term opens, very quickly one faces a simple question: do I cooperate if my individual interest is served better by acting individually? One key answer will come out from historical studies of cooperation that we are not so uncooperative as much as theorists objectively expect us to be. Because humans are obliged to cooperate within the groups to survive.

What is Cooperation?

A very common definition of cooperation in different literature defines it “as a group of individuals acting together to a common end”.

Theories of Collective Action

The Theories of collective action has been debated for centuries. Probably, for the first time it was **Aristotle** who pointed out in the Tragedy of the Commons ‘What is common to the greatest number has the least care bestowed on it’. Today, it is sociologists and economists who have adopted the subject as their own.

Cooperation and working together has always been a focus point for human society, and plays an important role in rural development programs. Once we look at the successes of the formal cooperatives in Europe and North America in last decades and we take a look at the state-sponsored cooperatives in developing countries, from the 1960s

onwards, we can easily find the vital role of cooperation in this movement. But, as **Seabright (1997)** reminds us, the development paradigms of the 1970s were based on the assumptions that communities would be fully involved collectively on a vast range of activities, while less attention were given to what types of activities that could be properly managed at the community level. Weak performance of many programs led to either the state or markets to deliver services. However, there were number of examples of state and market failures, especially in addressing the needs of poor, while samples of small-scale community collective action either through indigenous institutions or external programs provided renewed interest in involving local groups in many domains of agricultural and rural development such as watershed management programs, integrated pest management, participatory breeding, extension groups, farmer-managed irrigation systems, and a range of microfinance groups.

The failures of the earlier community-based development programs and projects in Afghanistan and some other countries rests with the fact that very little attention was given to the understanding of how collective action arises to deal with different issues, and how it is sustained. Without attention to this critical question, the current policies to bring farmers together, to give over natural resources to communities, empower women through self-help groups, or deliver a range of services through community-based or farmer organizations also risk failure. Through this study it is proposed to focuses on role of collective action on development of agriculture cooperative sector of Afghanistan. Whereas, the last several decades have produced an increasing amount of research on collective action, including that which is directly linked to natural resource management, much has focused on collective action theory, describing the conditions that foster or inhibit effective collective action (e.g. **Olson 1965; Axelrod 1981; Ostrom 1990, 1992; Ostrom, Gardner, and Walker 1994; Runge 1992; Sandler 1992**). Empirical studies on collective action largely comprised of case studies or syntheses across disparate case studies (**Uphoff 1986 and 1990; Ostrom 1991; Bromley 1992; Tang 1992; Bardhan 1993; Baland and Platteau 1996; Agrawal 2001**). Often collective action is not defined in these studies specifically regarding agriculture cooperatives, and when it is, definitions are usually loose and rooted in other concepts that are not clearly defined. The result is that collective action is used to mean many different things, so that its analysis often produces results that do not lend themselves to comparison and hinder researchers ability to gain new understandings and advance the frontiers of research on collective action. Even when researchers are clear about the definitions of collective action and the concepts that underlie it, without sound methods to measure it, good empirical research that enables cross-cutting analysis will not emerge. Much research on collective action has not gone as far as measuring net benefits or impact, but where attempts have been made, little has been done to evaluate those methods. More rigorous methods are beginning to emerge, but as yet they are quite new and have not been widely disseminated in the research community. The appropriate approach to collective action studies depends on the purpose of the study. The focus on collective action could be for one particular purpose or all forms of collective action in a community. This can contribute to general knowledge, and have practical applications for development our work, by taking into account the contexts in which group-based approaches are likely to succeed or the extent of impact that can be expected.

According to **Richardson**, in sociology, it was the 'Group Theorists' led by **Arthur Bentley**, who dominated the field at the beginning of the 20th Century. Group Theorists proved that when individuals have a common purpose and have

interest from cooperation, they will form to cooperate for the common good. **Mancur Olson** with the seminal work on 'The logic of Collective Action' has introduced the model of the rational. In this model he calls individuals into question of willingness to cooperate. **Olson** suggests that where we believe we can receive the benefits of cooperation without contributing to the cost, we will free-ride and leave the cooperation to others. According to **Schlozman**, we are often motivated to act collectively by our emotions or passion, while the Olson's definition of rationality is too thin "**Schlozman 1995**".

Economists focus on the study of collective action is mainly on public goods, common resources and club goods. Without having a vast knowledge of cooperation it's difficult to separate these areas which overlap. **Paul Samuelson** identified the public goods problem in 1947. Literature begins from this year and continues today with emerging literature on public goods around the globe with global problem.

Theorists from **Bentley to Scholzman** agreed on cooperation, they were sure that we should cooperate because it's social optimal to do so. As part of society it's our self-interest to cooperate. We attempt to illustrate the fact by the famous 'Prisoners' Dilemma' (PD) game.

The story is a simple and well-known one. Two criminals have been arrested on suspicion of a crime and placed in separate isolation cells. Both care much more about their personal freedom than about the welfare of their accomplice. The prison officers cannot arrest either of them without the confession of one or both men so attempt to cut a deal; "You may choose to confess or remain silent. If you confess and your accomplice remains silent I will drop all charges against you and use your testimony to ensure that your accomplice does serious time. Likewise, if your accomplice confesses while you remain silent, he will go free while you do the time. If you both confess I get two convictions, but I'll see to it that you both get early parole. If you both remain silent, I'll have to settle for token sentences on firearms possession charges.

While both prisoners know that if both prisoners confess, they will both be sent to jail but with commuted sentences as a reward for their cooperation. At the same time both prisoners know fully well that without a confession from either of them, the police will be forced to let them go.

Considering the story of the two men as society, that their cooperation for not accepting any accusation is the optimal outcome. Economically elaboration of this fact will tell that overall payoff of the society of '4' is bigger than the payoff of '3' which will only can happen with the confession of one man. And surely is greater than the overall '2' which would be the probable result from both men confessing or defecting all. For a group of theorists including Bentley this is the end of story, thus it's for better-off of every one to cooperate. For Olson, there are opposing reasons for the individual not to cooperate. These create the 'problem' of collective action.

Why shouldn't we cooperate?

Olson was an economist, his proposed model of rational individual was based on a logical substance. The individual is similar to a small company in the market – the company tries to maximize profit, while the individual acts to maximize utility. Coming back to the story of the two prisoner, if one of them come with the idea that his partner is

going to cooperate, it is in his interest to defect and send the other one to the prison. The payoff of '3' to this prisoner is just seducing.

The similarity with the competitive market is a simple one. Agreement or cooperation between cooperatives to maintain high prices by limiting output, delivers the whole group higher profits. Cooperation is collectively rational. However, for the small companies who believes it can increase output without affecting overall price levels, defection is optimal – it captures a larger portion of the market and higher profits for itself. The other company should not notice because the market price is unchanged. The small firm should not rationally cooperate – it should 'free-ride' on the cooperation of others.

However, as Olson points out, if society is comprised of many rational individuals, it will not just be one, but every individual who attempts to free-ride. In the market, this plays out so that all firms increase output until market price is lowered to the 'perfectly competitive' level and all firms make zero profit. In the prisoners' dilemma, it means that both players will defect, confessing to the crime in the belief that it is in their individual best interests. The outcome is sub-optimal from the point of view of both society and individual.

The fundamental problem of collective action then is the perceived tension between individual and collective best interests. We believe we can do better as individuals by deserting the socially optimal solution – actually, we cannot. What is best for society or the group is best for us as part of it. Olson used this argument to suggest that in a large group, collective action will never occur unless very specific conditions exist.

Olson's in his proposed conditions for cooperation indicated that, we will cooperate when we are sure to meet at least one of the three conditions. The group is small enough that free-riding would be noticed: if we go on the example of small market there was an idea, if any company increase output in an effort to get greater individual profits, as a result of increase in supply the overall market price with decrease, this gives alert to the company regarding its action. Individuals are forced to do so. As example, we could consider the obligatory membership in trade union or follow up of taxation protocols. Some specific incentives could persuade us to cooperate: this could be obtaining cheap health insurance due to having membership if trade union (first offered in Ghent, 1904, with great success (Tilley 2003)).

While, Olson's model of rational individuals 'thin model' theoretically and empirically was criticized in recent years (Elster 1989), the opposition to this model argue that making list of characteristics will limit our ability to analyze the real pros and cons of a situation. The critics of thin model attempting to assure people by introducing various version of thick model to create a more realistic paradigm of human decision making.

Ostrom Elinor, 1990 uses her famous "common pool resources " to denote that natural resources like grazing land, irrigation systems, water bodies, fisheries, meadows are used by many users as commons. These resources are usually over exploited and misused by individuals acting in their own interests. Generally, such issues are tackled

through governmental regulation or privatization of resources. But Ostrom has maintained that there is third approach to resolving the problem of commons, through the design of durable cooperative institution that are organized and self- governed by the users . She writes, “is how a group of principals who are in an independent situation can organize and govern themselves to obtain continuing joint benefits when all face temptation to free-ride, shirk or otherwise act opportunistically”.

Hirschman A (1970) in his seminal work “Exit, Voice & Loyalty” observes that the consumers when faced with deteriorating quality of goods, either exit or voice protests. In a collective organization, either in business, or a nation or any form of human grouping have essentially two possible responses when they perceive that the organization is deteriorating. They can exit (withdraw from membership), or they can voice (attempt to repair or improve the relationship through communication of the complaint, grievance or proposal for change). For instance, the citizens of a country may respond to increasing political repression in two ways-emigrate or protest. Similarly, employees can choose to quit their unpleasant job or express their concerns in an effort to improve the situation.

If we now analyze the observations of the three main proponents of the Collective Action theories, then an apparent “non-convergent” approach among Olson, Ostrom and Hirschman come to the light; however, it must be borne in mind that Olson’s contention about “free-riding” of one member is the temptation of one group joining the collective action over others, when there is an additional perceived benefit at no marginal cost. This is probably a human behavior when one weighs individually as to how one would derive benefit of joining a collective action in which he or she would extract some incremental gain, not necessarily in monetary term, but even in non- monetary gain in perceived real sense. Ostrom establishes her argument on the basis of managing common property resources wherein a collective action is synonymous with formation of a cooperative, as third best alternative, away from government or even privatization of common property resources. The collective action experiment is validated from the evidence of case studies and researches from a good number of countries as also over variety of sectors under the ecosystems of commons. Hirschman’s theory is of “exit” or “noise” option in members’ behavior is a consumer reaction that is often noticed in the analysis of consumer behavior in case of a firm or say, in case of a nation, when the citizens could have the right to either immigrate or create internal pressure through noise.

In the context of present research, when we correlate our experiences with five case studies and their individual institutional legacies, we find that in all cases the founder promoters /cooperative leaders are respected as iconic leaders and it was their personal charisma coupled with the external project aid that have motivated the members to organize into cooperatives. Of course, in case Kabul Dairy Union or Khatiz Dairy union, it must be recognized that the members’ desire to form cooperatives cannot be ignored for milk being a perishable commodity and being produced at small scale and in decentralized manner, formation of an association becomes an economic need of the members. But it must also be motioned that the necessity of the dairy farmers cannot be excusive in Kabul or in Jalalabad; on the contrary, they are the universal problem, in all provinces of Afghanistan where milk is produced, Yet, only Kabul and Jalalabad had the cooperatives, leaving most regions, provinces, districts without the support of cooperative

institution, because in other locations, foreign aid from FAO, IFAD or even from MAIL had not come through. Therefore, foreign aid had played a motivational role, duly aided and sustained by the enlightened cooperative leaders, whose charisma, hold and control over the society had swayed considerably.

The Qura Baghi Robal Cooperative (QBRC) was largely a cooperative harboring political interests of the then leaders, despite the fact Parwan province where the cooperative is located is home to world class grape production with more than 24,000 grape vine owners, but only a handful of 40 members are presently associated with the cooperative. There has not been any worthwhile collective action in the sense, the grape vine owners are financially strong, yet they do not pull in capital to build capital reserve of the cooperative, and instead, expect some philanthropic organizations to donate capital for investment into grape processing unit. The members of Baba Qushquar Cooperative (BQC) had to part with their own equity capital reserve for paying punitive tax imposed on them by the Ministry of Finance for non-compliance of submission of annual return, yet the issue seemed to have been resolved internally among the members, without any “exit” or “noise” option exercised by the members, a situation which cannot be explained by the different tenets of Collective Action theory. The analysis of the case studies surprisingly offer different stories that are specific to the local context, economic reason, fiscal and financial, but they do not reflect upon the rationality of collective actions that we observe from the review of theoretical literature.

Walker and King (1992) has made an empirical study of US interest group; they have found that selective incentives were rated very important as a reason of joining. The Walker and King conclusion were: we are mobilizing against a collective bad and not in support of a collective good. 72% cited very important for purposive benefits. We will gain ‘solidary benefits’ or the friendship and support of like-minded people, in joining. 63% cited very important for ‘solidary benefit’. We are representing a company or professional interest. 71% cited very important for professional benefits.

Just a few years after **Schlozman (1995)** in his study of interest groups and participation in US, supports and improves these findings. **Schlozman** findings were indicating that our reasons for joining differ according to the type of collective action. Overall, selective benefits are only important as a reason for joining a group in less than a third of cases. ‘Social gratification’ – respect, solidary benefits and fun are very important for roughly half of the participants involved in collective action in a social context such as political campaigning. It is important for less than a quarter of those involved in ‘solo’ activities. Civic gratification or the intrinsic benefits to participation – fulfilling one’s duty and supporting the cause one believes in, are important in nearly all examples. Taking into account these findings we can add three more factors to the list of Olson. We will cooperate when we are sure about a subject particularly when we are against collective bad. We will cooperate we think that we are supporting the same idea and also we will cooperate when we are representing ourselves or a firm professionally. At the same time there were other people which their findings were not meeting what exactly Olson was proposed. For example, Oliver (1984) found on her

study of collective action in Detroit, USA, that where individuals are pessimistic about a neighborhood and its prospects, they are more likely to be actively involved in community projects. These active members of the community are also more educated and have more close ties in the community than 'inactive' members on average. Where Olson asserts that we will avoid contributing to the costs of collective action where we possibly can, Oliver suggests that we go out of our way to contribute for the good of the community if it is in peril. We cooperate when we believe no-one else will. This resonates with the findings of Walker and King who suggest that we are more likely to mobilize against a collective bad than in support of a collective good.

Pure public goods theory

A public good is non-excludable and non-rival (**Samuelson 1947**). While a public good is provided no one could be kept away from its benefits and individual consumption will not decrease the amount of good left to be used by everyone else. In this regard it's necessary that we should be clear on our preferences for the good to be sure that efficient amount is provided. It's also necessary to be honest about the value that each of us will give to a public good for the welfare of the society.

From the theoretical point of view, **Olson** showed, we should only cooperate when we are forced in into it, or when the group is small enough that our free riding is obvious. While economic experiment shows that this is not only the case. For example, **Andreoni (1995)** made a study using 'public goods game' to clarify whether people are generous than they 'should' be because of confusion or kindness.

The public goods game involves ten players over ten periods: In each period, each player is given \$1 for their private account. Whatever they donate to the public pot, they receive half back for their private account. Whatever is donated to the public pot creates some public good of equal worth of which everyone partakes.

The socially optimal solution:

Everyone donates their whole \$1 each time. Everyone ends up with \$5 private income and a public good worth \$50 to enjoy.

The individually rational solution:

No-one gives anything and aims to free-ride on the donations of others. If everyone does this, each person ends up with \$10 private income and no public good to share. In financial terms, they are \$45 worse off than if they had been 'nice'.

The modal result of the ten period experiment was that everyone gave away half of their private income. When **Andreoni** took away any incentives to cooperate (he made the game both anonymous and only 'one-shot') free-riding increased by one third. Donations were still well above zero. He concludes that some of our cooperation is due to confusion (roughly one third) but that most of it is due to embedded norms of 'kindness' (two thirds).

Marwell and Ames (1981) undertook a similar experiment to assess whether the framing of a game makes a difference to our actions. They only used the one-shot version of the PD (least favourable to cooperation) and found the following: When they told participants they were playing the 'Wall Street Game', they cooperated one third of the time. When they told participants they were playing the 'Community Game', they cooperated two thirds of the

time. Overall then, the study of public goods tells us that we need to modify our model of the rational individual. Our self-interest is diluted by norms of fairness and a 'logic of appropriateness'.

Common Resources

After reviewing literatures, it seems necessary to switch the discussions from public goods to a discussion on common property resources (CPR). Most of the time it is not clear to separate between definitions of the two, as they are similar together because it's difficult to stop people from using them. Often, definitions of the two are confused. Common resources are similar to public goods because we cannot exclude people from using them. The difference for a common resource from a public good is that after a point additional usage of common resource degrades the quality a bit more for everyone else.

To clarify it we can point out for the famous example of 'Tragedy of the Commons' (Hardin 1968). In this example a communal village grazing plot is considered, the proper usage of this grazing plot probably would be ten cows to graze. Properly means that for any number of cows less than ten the productivity of the grazing area would be more. Having eight cows will let the grazing area to be overgrown which is wasted. While with twelve cows the grazing area will be overgrazing and its cost will more than the benefits he gains from putting extra cows in the pasture. Individuals put out the twelfth cow despite the cost to society because it delivers them a benefit greater than zero. Again, cooperation is in our enlightened self-interest

Elinor Ostrom's (1990) findings on common resources shows that conditions are required for a cooperation to occur. She addresses several examples of successful cooperation including communal and land tenure in high mountain meadows and forests in **Torbel**, Switzerland and the **Zanjera** irrigation communities in the Philippines. She finds that certain conditions are necessary.

These findings echo those of **Balland and Platteau (1996)** who add the following three conditions:

Costs of excluding anyone from the resource must be high; the infrastructure exists to settle disputes easily; People care about their status and reputation matters.

Conceptualizing the theory of collective action on Agricultural cooperatives

The intention here is to restrict the definition of collective action to one possible wording of agricultural cooperative. By this way we can focus only to define the domain of the concept of collective action on cooperatives, **Marshall (1988)** defines collective action as an action taken by a group (either directly or on its behalf through an organization) in pursuit of members perceived shared interests. This is not the best and only definition. In the literature we can find several definitions, here I address the most common definition which has been used in the literature, is that collective action requires the involvement of a group of people, it requires a shared interest within the group and it involves some kind of common action which works in pursuit of that shared interest. Despite that there no clear description, that this action should be voluntary, to separate collective action from the hired labor. Several instance

of collective action been addressed such as collective decision-making, setting rules of conduct of a group and designing management rules, implementing decisions, and monitoring adherence to rules.

Collective action is easiest to identify when there is a clearly defined group that takes part. Moreover, clearly defined boundaries is the first of **Ostrom (1992)** design principles for long-enduring, self-organized irrigation systems, which have also been applied to many other cases of natural resource management. This shows that limitation within a group allows people to know who else is or should be contributing and supporting collective action. Whereas in many examples of collective action it is not clear how the group is defined or the group structure necessarily fixed or developed. Some people may participate one time, others another, with none of them knowing exactly who is involved, but all identifying with the collective action. Formal or informal organizations may be helpful in coordinating collective action, but it is important to distinguish between organizations and collective action. Many organizations exist on paper only, and do not lead to action; conversely, collective action may occur automatically. It's also predictable that collective action can appear itself and can be understood as an event (a onetime incidence), as an institution, or as a process. While many previous studies analyze the institution of collective action, others (**Sultana and Thompson 2003**) focus on the process of collective action. It's worth mentioning that institutionalization highly depends on the feature of the collective action; any type of collective action will institutionalize if it becomes a routine work or it's a regular need for a community or group users, while collective action for seed exchanges is likely not to be institutionalized where the need to exchange seed occurs only sporadically (**Badstue et al., 2002**). Following the debate of collective action, we reach in a point that institutionalization will help to reduce transaction cost and increases the negotiation power but on the other hand more institutionalized collective action will create the condition of less flexibility and adaptability.

In the literature, several types of collective action have been described such as the development of institutions, resource mobilization, coordination activities and information sharing (**Poteete and Ostrom 2003**). The objective of collective action impacts the level at which we analyze the phenomenon, such as which institutional level (operational, collective choice or constitutional level if we use **Oakersons (1992)** institutional framework) and which social unit (individual, group, community, intra-community etc.). Likely indicators of collective action will vary according to the specific objective of collective action. For instance, if we investigate collective action on maintenances of irrigation scheme we investigate collective action for the maintenance of an irrigation system or collective action for or collective action on a watershed management group indicators of collective action will again differ, or in any case not overlap entirely. **Poteete and Ostroms paper (2003)** discusses how indicators had to be redefined when moving from the study of irrigation systems to forestry, and the tension of maintaining a common core set of measures even among forestry sites around the world.

Many studies focus on community-level collective action, but not all forms of collective action take place at this level. Many microfinance programs use groups of ten to twenty members. **McCarthy et al (2002)** study demonstrates the importance of cooperation among groups within the community, e.g. for water point management. Sultana and Thompson (2003) study the process of fostering collective action in multi stakeholder processes, and national federations of forest and water user groups in Nepal. The appropriate units of analysis will therefore vary, depending

on the research or policy question (**Place and Swallow 2002**).

Operationalizing the concept of collective action on agriculture cooperatives

There are two issues which make the concept of collective action complicated to use it for the cooperative sector. First, because collective action is a dynamic process that relates to social relationships, it is normally difficult to measure directly. As a result, alternative indicators are generally used. However, because the revelation of collective action can differ over time and also across cultures and communities, it is difficult to find comparable measures across sites and study periods. But as the cooperative could be considered as a formal collective action that takes place through clear organizations may be easiest to recognize, and even to compare across sites. But one should take into consideration that time to time very easily measured forms may miss the most important instances of collective action, and may influence the study toward communities or societies which are more likely to have weak performance. The second complication probably will emerge from the distinct methodological approaches which could be used on this study. This will affect how the concept of collective action is applied in practice on terms of cooperative. Each discipline and approach has something important to offer, and none (thus far) covers all aspects equally well. More traditional economic analyses tend to focus on the incentives of individuals to participate in collective action, generally taking as given the institutional framework. Institutional economics has broadened the scope to include endogenous choice over the institutional framework, though individual incentives and bargaining power of individuals largely remain the driving forces in those analyses.

Sociological approaches, on the other hand, tend to look at the behavior of cooperative as units of analysis and how motivation for action can be shaped at the group level through social networks, organizations, and even ideology.

What I tried to do here is a means of bringing together the various disciplines so that they can first understand each other. Ultimately, it would be good for study to combine the method, or at least choose the methods that are most appropriate for the specific questions being addressed, rather than because of the familiarity or disciplinary background of the researcher. The scale of analysis that is appropriate to this specific study depends on the phenomenon investigated and on the research question addressed. As discussed before that collective action may emerge in different forms, some forms of collective action happen between a few people or households; others may function at the region, province, national, or even global level. Many agricultural and natural resource management practices such as irrigation, forestry, rangeland, watershed management or even working within a cooperative needs cooperation among individuals (**Knox and Meinzen-Dick 2001**). Studying such collective action needs to take into account both social unit as well as resource units, which often differ. Studies of collective action in irrigation (e.g. **Meinzen-Dick, Raju and Gulati 2002; Bardhan 2000**) have tended to define the units of analysis in terms of the hydraulic infrastructure, but **Swallow et al. (2002)** argue that social units may be the more appropriate. **McCarthy et al study (2002)** uses multiple units of analysis, including the community, groups and institutions within the community. This study also included household-level data on participation in collective activities as well as outcomes from collective action. In some cases it may even be relevant to collect intra-household data, e.g. on determining

who within a household participates, or how the distribution of costs and benefits of collective action differ among individuals in the same household. One of the constraint to pervious analyses of collective action was the limitation of the sample size, the studies by **Place et al.(2002)**, **Krishna (2003)**, **Berhanu et al (2002)**, and **McCarthy et al (2002)** represent important advances in collecting comparable data from a larger number of sites, to allow quantitative as well as qualitative analysis.

Qualitative data collection and analysis is proposed as one of the main data collection method on this research and it will be a useful starting point for studying collective action within a cooperative, especially when all the manifestations of collective action and the key institutions are not understood. Why qualitative method? Because this method is flexible, allowing to adapt hypothesis and methods to fit the local situation.

Case Study Protocol

Field work and data collection.

In social science research, data is collected in a variety of ways including but not limited to:

- a. Questionnaires
- b. Focus groups
- c. Interviews
- d. Document searches
- e. Observation

Some methods are hands-on and highly participatory, involving a wide range of customers, partners, and stakeholders, while others are more exclusive, relying on the opinion of one or two specialists. We have used a combination of more than one data collection method.

Case Study & Research Methodology

“Case study is an empirical method aimed at investigating contemporary phenomena in their context. Information gathering from few entities (people, groups, organizations), and the lack of experimental control”.

The purpose of conducting case studies is to investigate the exact requirements of cooperative sector at central and provincial level. Selection of subjects and objects under a case study is not based on statistically representative samples. Instead, research findings are obtained through the in- depth analysis of typical or special cases after through probing.

Cases study research is conducted by iteration over a set of phases. In the design phase, the objectives are decided and the case is defined. Data collection is first planned with respect to data collection techniques and data sources, and then conducted in practice. Methods for data collection include, for example, interviews, observation, and usage

of archival data. During the analysis phase, insights are both generated and analyzed, e.g. through coding of data and looking for patterns. During the analysis it is important to maintain a chain of evidence from the findings to the original data. The report should include sufficient data and examples to allow the reader to understand the chain of events.

Characteristics of Research Methodologies

Case studies deploy different methodologies that serve different purposes, since single approach methodology cannot be the best fit for all purposes. There are a few standard typologies of research methodologies that are presented below.

1. **Exploratory**—finding out what is happening, seeking new insights and generating ideas and hypotheses for new research.
2. **Descriptive**—portraying a situation or phenomenon.
3. **Explanatory**—seeking an explanation of a situation or a problem, mostly but not necessary in the form of a causal relationship.
4. **Improving**—trying to improve a certain aspect of the studied phenomenon.

The data collection for an empirical study should preferable be quantitative or qualitative. Quantitative data involves numbers and classes, while qualitative data involves words, descriptions, pictures, diagrams etc. Quantitative data is analyzed using statistics, while qualitative data is analyzed using categorization and sorting. Case studies tend to be largely based on qualitative data, as they provide deeper understanding of the situation studied.

Conducting **Triangulation** since it is important to enhance precision of empirical research after relating a single phenomenon from many associated angles. Triangulation means taking different angles towards the studied object and thus providing a broader picture. The need for triangulation is obvious when relying primarily on qualitative data, which is broader and richer, but less precise than quantitative data. However, it is relevant also for quantitative data, e.g. to compensate for measurement or modeling errors. There 4 different types of triangulation that are used in qualitative researches.

1. **Data (source) triangulation**—using more than one data source or collecting the same data at different occasions.
2. **Observer triangulation**—using more than one observer in the study.
3. **Methodological triangulation**—combining different types of data collection methods, e.g. qualitative and quantitative methods.
4. **Theory triangulation**—using alternative theories or viewpoints.

Hence, a case study is unable to provide statistically defensible numeric estimates. Therefore, it is desirable to adopt

a combination of methodologies involving statistical data, figures, statements, documents, to be juxtaposed in a manner that strong and conclusive evidence can be established in social science research.

The criteria followed for the case study are as under.

- Has research questions set out from the beginning of the study
- Data is collected in a planned and consistent manner
- Inferences are made from the data to answer the research questions
- Explores a phenomenon, or produces an explanation, description, or causal analysis of it
- Threats to validity are addressed in a systematic way through the case study.

Case Study Research Process

When conducting a case study, there are five major process steps that have been adopted.

1. Case study design: objectives are defined and the case study is planned.
2. Preparation for data collection: procedures and protocols for data collection are defined.
3. Collecting evidence: execution with data collection on the studied case.
4. Analysis of collected data
5. Reporting

Case Study Design and Planning

Defining a Case

Case studies would at least contain the following elements:

- Objective—what to achieve?
- The case—what is studied?
- Theory—frame of reference
- Research questions—what to know?
- Methods—how to collect data?
- Selection strategy—where to seek data?

The objective of the study is, for example, exploratory, descriptive, explanatory, or improving. The objective is naturally more generally formulated and less precise than in fixed research designs. The objective is initially more like a focus point which evolves during the study. The research questions state what is needed to know in order to fulfill the objective of the study.

Case Study Protocol

The case study protocol is a container for the design decisions on the case study as well as field procedures for its carrying through. The protocol is a continuously changed document that is updated when the plans for the case study are changed.

There are several reasons for keeping an updated version of a case study protocol.

1. **Firstly**, it serves as a guide when conducting the data collection, and in that way prevents the researcher from missing to collect data that were planned to be collected.
2. **Secondly**, the processes of formulating the protocol makes the research concrete in the planning phase, which may help the researcher to decide what data sources to use and what questions to ask.
3. **Thirdly**, other researchers and relevant people may review it in order to give feedback on the plans. Feedback on the protocol from other researchers can, for example, lower the risk of missing relevant data sources, interview questions or roles to include in the research and to assure the relation between research questions and interview questions. Finally, it can serve as a log or diary where all conducted data collection and analysis is recorded together with change decisions based on the flexible nature of the research. This can be an important source of information when the case study later on is reported. In order to keep track of changes during the research project, the protocol should be kept under some form of version control.

Collecting Data

Different Data Sources

It is important to use several data sources in case study in order to limit the effects of one interpretation of one single data source. If the same conclusion can be drawn from several sources of information, i.e. triangulation, this conclusion is stronger than a conclusion based a single source. In a case study, it is also important to take into account viewpoints of different roles, and to investigate differences.

Data collection techniques can be divided into three levels:

1. **First degree:** Direct methods means that the researcher is in direct contact with the subjects and collect data in real time. This is the case with, for example interviews, focus groups, Delphi surveys, and observations with “think aloud protocols”.
2. **Second degree:** Indirect methods where the researcher directly collects raw data without actually interacting with the subjects during the data collection.
3. **Third degree:** Independent analysis of work artifacts where already available and sometimes compiled data is used. This is for example the case when documents such as requirements specifications and failure reports from an organization are analyzed or when data from organizational databases such as time accounting is analyzed.

Interviews

Data collection through interviews is important in case studies. In interview-based data collection, the researcher asks a series of questions to a set of subjects about the areas of interest in the case study. In most cases one interview is conducted with every single subject, but it is possible to conduct group-interviews. The dialogue between the researcher and the subject(s) is guided by a set of interview questions.

The interview questions are based on the topic of interest in the case study. That is, the interview questions are based on the formulated research questions (but they are of course not formulated in the same way). Questions can be open, i.e. allowing and inviting a broad range of answers and issues from the interviewed subject, or closed offering a limited set of alternative answers.

Interviews can, for example, be divided into unstructured, semi-structured and fully structured interviews. In an unstructured interview, the interview questions are formulated as general concerns and interests from the researcher. In this case, the interview conversation will develop based on the interest of the subject and the researcher. In a fully structured interview all questions are planned in advance and all questions are asked in the same order as in the plan. In many ways, a fully structured interview is similar to a questionnaire-based survey. In a semi-structured interview, questions are planned, but they are not necessarily asked in the same order as they are listed. The development of the conversation in the interview can decide which order the different questions are handled, and the researcher can use the list of questions to be certain that all questions are handled. Additionally, semi-structured interviews allow for improvisation and exploration of the studied objects. Semi-structured interviews are common in case studies.

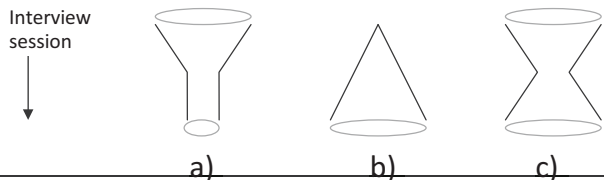
An interview session may be divided into a number of phases. First the researcher presents the objectives of the interview and the case study, and explains how the data from the interview will be used. Then a set of introductory questions are asked about the background etc. of the subject, which are relatively simple to answer. After the introduction comes the main interview questions, which take up the largest part of the interview. If the interview contains personal and maybe sensitive questions, e.g. concerning economy, opinions about colleagues, why things went wrong, or questions related to the interviewees own competence, special care must be taken. In this situation it is important that the interviewee is ensured confidentiality and that the interviewee trusts the interviewer. It is not recommended to start the interview with these questions or to introduce them before a climate of trust has been obtained. It is recommended that the major findings are summarized by the researcher towards the end of the interview, in order to get feedback and avoid misunderstandings.

Interview sessions can be structured according to three general principles, as outlined in Fig. 2 (Caroline Seaman, personal communication). The funnel model begins with open questions and moves towards more specific ones. The pyramid model begins with specific ones, and opens the questions during the course of the interview. The time-glass model begins with open questions, straightens the structure in the middle and opens up again towards the end of

the interview.

During the planning phase of an interview method, it is decided to whom to interview. Due to the qualitative nature of the case study it is recommended to select subjects based on glass.

Overview of interviews



	Unstructured	Semi-structured	Fully structured
Typical focus	How individuals qualitatively experience the phenomenon	How individuals qualitatively and quantitatively experience the phenomenon	Researcher seeks to find relations between constructs
Interview questions	Interview guide with areas to focus on	Mix of open and closed questions	Closed questions
Objective	Exploratory	Descriptive and explanatory	Descriptive and explanatory

Caroline Seaman, General principles for interview sessions. a) funnel, b) pyramid, and c) time

Archival Data

Archival data refers to, for example, meeting minutes, documents from different development phases, organizational charts, financial records, and previously collected measurements in an organization.

Archival data is a third degree type of data that can be collected in a case study. For this type of data a configuration management tool is an important source, since it enables the collection of a number of different documents and different versions of documents. As for other third degree data sources it is important to keep in mind that the documents were not originally developed with the intention to provide data to research in a case study. It is of course hard for the researcher to assess the quality of the data, although some information can be obtained by investigating the purpose of the original data collection, and by interviewing relevant people in the organization.

Checklists

Preparation for data collection checklist items

1. Is a case study protocol for data collection and analysis derived (what, why, how, when)? Are procedures for its update defined?
2. Are multiple data sources and collection methods planned (triangulation)?
3. Are measurement instruments and procedures well defined (measurement definitions, interview questions)?
4. Are the planned methods and measurements sufficient to fulfill the objective of the study?
5. Is the study design approved by a review board, and has informed consent obtained from individuals and organizations?

Collecting evidence checklist items

1. Is data collected according to the case study protocol?
 2. Is the observed phenomenon correctly implemented (e.g. to what extent is a design method under study actually used)?
 3. Is data recorded to enable further analysis?
 4. Are sensitive results identified (for individuals, the organization or the project)?
 5. Are the data collection procedures well traceable?
 6. Does the collected data provide ability to address the research question?
 - 7.
-

Data Analysis

Qualitative Data Analysis

Since case study research is a flexible research method, qualitative data analysis methods are commonly used. The basic objective of the analysis is to derive conclusions from the data, keeping a clear chain of evidence. The chain of evidence means that a reader should be able to follow the derivation of results and conclusions from the collected data. This means that sufficient information from each step of the study and every decision taken by the researcher must be presented.

In addition to the need to keep a clear chain of evidence in mind, analysis of qualitative research is characterized by having analysis carried out in parallel with the data collection and the need for systematic analysis techniques. Analysis must be carried out in parallel with the data collection since the approach is flexible and that new insights are found during the analysis. In order to investigate these insights, new data must often be collected, and instrumentation such as interview questionnaires must be updated. The need to be systematic is a direct result of that the data collection techniques can be constantly updated, while the same time being required to maintain a chain of evidence.

In order to reduce bias by individual researchers, the analysis benefits from being conducted by multiple researchers. The preliminary results from each individual researcher is merged into a common analysis result in a second step. Keeping track and reporting the cooperation scheme helps increasing the validity of the study.

Techniques for Analysis

There are two different parts of data analysis of qualitative data, hypothesis generating techniques and hypothesis confirmation techniques, which can be used for exploratory and explanatory case studies, respectively.

Hypothesis generation is intended to find hypotheses from the data. When using these kinds of techniques, there should not be too many hypotheses defined before the analysis is conducted. Instead the researcher should try to be unbiased and open for whatever hypotheses are to be found in the data. The results of these techniques are the hypotheses as such. Examples of hypotheses generating techniques are “constant comparisons” and “cross-case analysis”. Hypothesis confirmation techniques denote techniques that can be used to confirm that a hypothesis is really true, e.g. through analysis of more data. Triangulation and replication are examples of approaches for hypothesis confirmation. Negative case analysis tries to find alternative explanations that reject the hypotheses. These basic types of techniques are used iteratively and in combination. First hypotheses are generated and then they are confirmed. Hypothesis generation may take place within one cycle of a case study, or with data from one unit of analysis, and hypothesis confirmation may be done with data from another cycle or unit of analysis.

This means that analysis of qualitative data is conducted in a series of steps. First the data is coded, which means that parts of the text can be given a code representing a certain theme, area, construct, etc. One code is usually assigned too many pieces of text, and one piece of text can be assigned more than one code. Codes can form a hierarchy of codes and sub-codes. The coded material can be combined with comments and reflections by the researcher (i.e. “memos”). When this has been done, the researcher can go through the material to identify a first set of hypotheses. This can, for example, be phrases that are similar in different parts of the material, patterns in the data, differences between sub-groups of subjects, etc. The identified hypotheses can then be used when further data collection is conducted in the field, i.e. resulting in an iterative approach where data collection and analysis is conducted in parallel as described above. During the iterative process a small set of generalizations can be formulated, eventually resulting in a formalized body of knowledge, which is the final result of the research attempt. This is, of course, not a simple sequence of steps. Instead, they are executed iteratively and they affect each other

Level of Formalism

A structured approach is, as described above, important in qualitative analysis. This means, for example, in all cases that a pre-planned approach for analysis must be applied, all decisions taken by the researcher must be recorded, all versions of instrumentation must be kept, links between data, codes, and memos must be explicitly recorded in documentation, etc. However, the analysis can be conducted at different levels of formalism. The following approaches are mentioned:

1. Immersion approaches: These are the least structured approaches, with very low level of structure, more reliant on intuition and interpretive skills of the researcher. These approaches may be hard to combine with requirements on keeping and communicating a chain of evidence.
2. Editing approaches: These approaches include few a priori codes, i.e. codes are defined based on findings of the researcher during the analysis.
3. Template approaches: These approaches are more formal and include more a priori based on research questions.
4. Quasi-statistical approaches: These approaches are much formalized and include, for example, calculation of frequencies of words and phrases.

To my experience editing approaches and template approaches are most suitable in case studies. It is hard to present and obtain a clear chain of evidence in informal immersion approaches. It is also hard to interpret the result of, for example, frequencies of words in documents and interviews.

Validity

The validity of a study denotes the trustworthiness of the results, to what extent the results are true and not biased by the researcher' subjective point of view. It is, of course, too late to consider the validity during the analysis. The validity must be addressed during all previous phases of the case study. However, the validity is discussed in this section, since it cannot be finally evaluated until the analysis phase.

This scheme distinguishes between four aspects of the validity, which can be summarized as follows:

1. Construct validity: This aspect of validity reflect to what extent the operational measures that are studied really represent what the researcher have in mind and what is investigated according to the research questions. If, for example, the constructs discussed in the interview questions are not interpreted in the same way by the researcher and the interviewed persons, there is a threat to the construct validity.
2. Internal validity: This aspect of validity is of concern when causal relations are examined. When the researcher is investigating whether one factor affects an investigated factor there is a risk that the investigated factor is also affected by a third factor. If the researcher is not aware of the third factor and/or does not know to what extent it affects the investigated factor, there is a threat to the internal validity.
3. External validity: This aspect of validity is concerned with to what extent it is possible to generalize the findings, and to what extent the findings are of interest to other people outside the investigated case. During analysis of external validity, the researcher tries to analyze to what extent the findings are of relevance for other cases. There is no population from which a statistically representative sample has been drawn. However, for case studies, the intention is to enable analytical generalization where the results are extended to cases which have common characteristics and hence for which the findings are relevant, i.e. defining a theory.

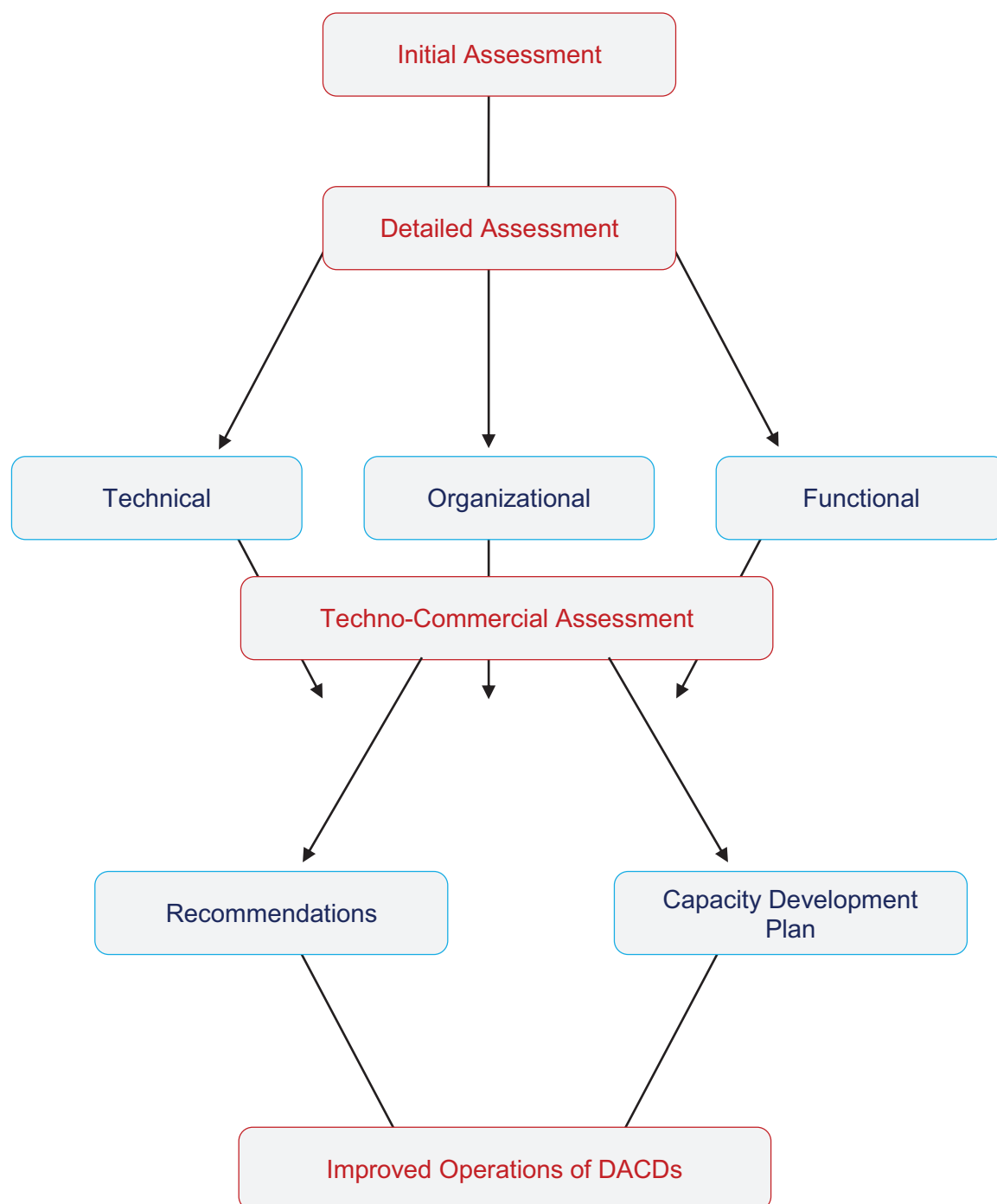
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4. Reliability: This aspect is concerned with to what extent the data and the analysis are dependent on the specific researchers. Hypothetically, if another researcher later on conducted the same study, the result should be the same. Threats to this aspect of validity is, for example, if it is not clear how to code collected data or if questionnaires or interview questions are unclear.

It is, as described above, important to consider the validity of the case study from the beginning. Some examples about the ways to improve validity are triangulation, developing and maintaining a detailed case study protocol, having designs, protocols, etc. reviewed by peer researchers, having collected data and obtained results reviewed by case subjects, spending sufficient time with the case, and giving sufficient concern to analysis of “negative cases”, i.e. looking for theories that contradict your findings.

SWOT ANALYSIS

SWOT analysis is used to assess and communicate the current position of an organization in term of its internal Strengths and Weakness and the external Opportunities and Threats it faces.

This phase would provide support for the methodology used in the study and would be a source of information for comparison, triangulation and further referencing.

Figure : *Analysis Framework*

Reporting

Cooperative in the world
Introduction

The economic situation of most of the developing countries after second World War has been fragile and unstable that could not meet the varying, complex and the increasing needs and demands of their societies. The war and inter conflicts in the developing countries has caused severe damages to the economic and social infrastructure of these countries which have had negative impact on the lives of the people. Agriculture has been considered as the main sector of their economy which has also been vastly damaged and the people could not produce food for their own consumption in most of the developing countries. The governments in the developing countries with de facto war situation and internal conflicts have not been able to effectively overcome the economic and social problems and improve the living standard of their people.

As such, the fact is that development of agriculture without the direct involvement of the farmers through agricultural Cooperatives and Enterprises is not possible and even not feasible in solving the problems of agriculture production and marketing. However, it has been difficult for these countries to reach every farmer on cost effective basis. As has been experienced in these countries the only way out is to embark on agricultural cooperatives and enterprises so that with the direct participation of the farmers and their investment in the cooperatives movement will lead to the development of human resources as the main productive force as well to the increase of agriculture productivity and production. This is what the need for the establishment and strengthening of agricultural cooperatives and enterprises has been well dominated in the developing countries with emphasis on the capacity building of the participants.

With this understanding, the international union of cooperatives in Geneva Swiss with representation in Asia, Africa, Europe, and America has been undertaking studies and research in the arena of cooperatives principles in order to find ways and means for meeting the current complex and increasing needs of the participating countries. The cooperative movement needs to bring about positives changes and update its principles in order make the most benefit of agriculture knowledge and technologies in boosting the agriculture productivity (**Branverman 1991; and Hasan S & Loyons M 2001**).

Generic Institutional Movement of Cooperatives

The generic and institutional movement of cooperatives has been focused on the structuring of cooperatives and democratic functioning. The primary reason for the restructuring of cooperatives was that their inability to stand up on their own.

It is not easy and even not possible to really know the exact date of the of cooperatives establishment. However, at the very beginning of human history the understanding was that with the cooperation and the process of working together the society can solve its living problems and prevent or reduce natural disasters like flood, fire, cold and warm weathers and so on.

However, when the needs of the families were limited, one family could solve its living problems through crops cultivation, fruits production, fisheries and keeping animals in each year. With the expansion of population and increased need of the growing population, one family has not been able to meet its needs alone, and therefore, the idea of cooperation and working with each other has been created. As estimated, 5000 years before one category of

people in Egypt, and Rome started cooperation and working together during the period of war, natural disasters and epidemic diseases. Meanwhile, the people of Russia and some immigrant from Italy started cooperatives of fisheries in order to overcome poverty and livelihood problems. These type of cooperation cannot be considered like what we know of today cooperatives, but provide a hint for modern cooperatives with laws, regulations and principle.

In view of the cooperatives principles, the first cooperative was established by the weaving workers in England where they were selling their products in order to overcome the increasing needs of the families. The principles and regulations of these cooperatives have been utilized in the development of cooperatives' idea, principles, regulations and laws (**John Salaas 1987**).

The modern cooperative movement gets roots from Europe and has been expanded over the industrialized countries in 19th century with notion of self-help method in order to reduce poverty (Hoyt, 1989). Now a day, there is almost one believe that establishment of **Rachdale** society of equitable pioneers in 1844 was one of the important development which had the greatest singular impact on determining agriculture cooperatives. This was a consumer cooperative established in **Rachdale**, England, by a group of workers representing various trades who formulated a set of basic operating rules based on a two-year study of cooperatives, including some that were not successful. The cooperative's objectives were to address members' needs for better housing, employment, food, education and other social requirements. The second success story which is mostly cited in the literature of agriculture cooperatives was the establishment of **Friedrich Wilhelm Raiffeisen** in 1864 in Germany. This was the first saving and credit cooperative with the objective of providing credit services and saving facilities to the urban and rural habitants based on self-help group idea. **Raiffeisen** is generally given credit for developing the rules that govern present-day credit unions (**Ingalsbe & Groves, 1989**).

There are many factor which influenced to shape the development of cooperative sector in last decades. Based on Ingalsbe and Groves (1989) these interrelated factors divided into three main types:

- (1) economic conditions: in this term the factors of war, depression, technology and government policy has been categorized.
- (2) farmer organizations: while in term of farmer organization factors of leadership quality, motivation and impressment to promote cooperatives and power to influence public policy has grouped
- (3) public policy: as determined by government interest, legislative initiative, and judicial interpretation).

Cook in his paper (The future of U.S. agricultural cooperatives) describes that since about 1988 two important events has played active role in the organization of agricultural cooperatives in the US. First restructuring and amplification of conventional cooperatives and secondly the emergence of new generation cooperatives (**Cook, 1995**). The new generation cooperatives preserved many characteristics of the conventional cooperatives, but at the same time they focus on value added activities. Member capital contributions are linked to product delivery (marketing) rights which attain value and can be transferred, and membership is closed or restricted. These developments suggest that cooperative strategies are becoming more offensive in nature. **Cropp (2002)** claims that cooperatives in the US have matured to become a significant force in agriculture, and play an increasing role in influencing national agricultural policies. Taking into account the success of cooperative in Europe and US, the developing countries attempt to

organize farmers into cooperatives have often failed. Although cooperatives have the potential to supply farm inputs and market farm products that are both important for agricultural development (Hoyt, 1989). **Akwabi-Ameyaw (1997)** argues that African agriculture cooperatives failed because of difficulties in holding management accountable to the members, leading to improper political activities or financial irregularities in management. **Van Niekerk (1988)** reports that cooperative failures in the former (less-developed) homelands of South Africa were due mainly to lack of management experience and knowledge, lack of capital resources, and disloyalty of members due to ignorance. Some successes include food processing cooperatives in Argentina and Brazil, and cooperatives processing and marketing milk, sugar, and oil seeds in India (**Hoyt, 1989**).

There are good literature regarding the history of cooperative development in South Africa, several authors documented this history (e.g., **Van Niekerk, 1988; DTI, 2003; Piesse et al., 2003; RSA, 2005a**). **Van Niekerk** contended that the first cooperative in South Africa was established in 1892 and it was a consumer's cooperative (**Van Niekerk, 1988: 19**). Later on several more cooperatives, particularly agricultural cooperatives, were registered under the Companies Act until 1908 when the first Cooperative Act was passed. The 1981 Act was amended on at least on eight occasions (RSA, 2005a).

The literature finds that the present government did not consider the 1981 Act as a suitable vehicle for the development of cooperatives in the current situation for various (RSA, 2005a) reasons. Thus the government initiated the process of developing a new Act based on international (ICA) principles. This process was started with the publication of a draft Bill in 2000. The revised Bill culminated in the Cooperatives Act, 2005 (RSA, 2005b). A wide variety of primary cooperatives can register in terms of this Act (including agricultural, consumer, housing, worker, financial services, burial society, and service cooperatives), as well as secondary cooperatives and tertiary cooperatives.

Cooperative identity, Principles, Values

Cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, cultural needs and aspiration through jointly-owned and democratically controlled enterprises.

Values

Cooperatives are based on the values of self-help, self- responsibility, equality, equity and solidarity. In the traditional of their founders, cooperative members believe in the ethical values of honesty, openness and social responsibility and caring for others (**Groosten and Bastler J 2001**).

Principles

The cooperatives principles are guidelines for by which the cooperatives put them into practice.

1. **Voluntary and open membership:** cooperatives are voluntary organizations open to all persons capable to use their services and willingness to accept the responsibility of membership without gender, social, racial, political or religious discrimination.
2. **Democratic Members Control:** cooperatives are democratic organizations controlled by their members who actively setting their policies and making decisions. Men and women serving as elected representatives and

are accountable to the membership. In the primary cooperatives members have equal voting rights (one member one vote) and cooperatives in other levels are also organized on democratic basis.

3. **Member Economic Participation:** Members contribute equitability and democratically control the capital of their cooperative. At least part of the capital is usually common property of the cooperative. Members usually receive part of the compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes;

- Developing the cooperative possibly by setting up their reserve, part of which would be at least indivisible.
- Benefiting members in proportion to their transaction with the cooperative and supporting other activities approved by the membership.

4. **Autonomy and Independence:** Cooperatives are autonomous and self-organizations controlled by their members. If they enter into any agreement including the government, or raise capital from external sources, they do so on terms to ensure democratic control of their members and maintain their cooperative autonomy.

The innovative lead in this direction of autonomy proves success of the cooperatives. Over the years the role of cooperatives is changing with the increased levels of maturing both the production and markets and the financial system as whole. In realizing the need for financial inclusion towards the cooperatives autonomy involves the provision of credit services to cooperatives for their autonomy. However, in this process of autonomy the problems of the cooperatives to be effectively addressed include:

- The lack or limited infrastructure in rural areas
- Relatively the low level of transactions
- Comparatively the higher transaction costs
- The lower level of literacy of the farmers.

;

5. **Education, Training and Information:** Cooperatives provide education and training for their members, elected representatives, managers and employees so that they can contribute effectively to the development their cooperatives. They inform the general public, particularly the young people and opinion leaders about the nature and benefits of the cooperatives,
6. **Cooperation among Cooperatives:** Cooperatives effectively serve their members and strengthen the cooperative movement by working together through local, national, regional and international structures.

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7. **Concern for the Community:** Cooperatives work for the sustainable development of their communities through policies approved by their members.

The Economic Importance of Cooperatives

The cooperatives have made effective contribution in the improvement of economic and social life of the society.

The main contributions of cooperatives include UN Department of Economics and Social Affairs 2015, (Wanyama FO 2008; and Deneltere 2008).

1. Reduction in the prices of the commodities and necessary living materials, safe guarding the public interests and improvement the living condition of the society at large.
2. Creating self-financial reliance within cooperatives through income generation without getting loans from rich people on a higher level of interest. This is one of the major contributions.
3. Creating marketing linkages for selling commodities produced by farmers and workers, which serve their interests in a most effective manner possible.
4. Creating supply and distribution centers for providing farmers with production inputs on cost effective basis and with easy access to them.
5. Providing conditions for income generation and saving so that the cooperatives members will have enough money for improving their living conditions and boosting production
6. Capacity building of the cooperative members and strengthening the mode of cooperation among themselves and working together in order to make effective decision for planning, implementing, controlling, monitoring and evaluation of their activities.

Reasons for the Cooperative Movement in Developing Countries

As evident from the history of cooperatives, the reduction and lack of living commodities and tools increase the price of such commodities which become beyond the economic capabilities of the individual families. The price of living commodities also rises when some people keep and store the commodities and wait for higher prices at the time scarcity and crises. This is a black market for personal economic benefits and exploitative at large. Along with this situation, there are also some other factors which induce people to establish cooperatives. They include the following (Wanyama FO 2008; Ruerd and Zvi Leman 2012; and Ruerd and Heras J 2012).

1. **A lower level of wages:** Poverty and bad living conditions with a lower level of wages force people to find way out way of the unwarranted situation through discussions and forming cooperatives for helping themselves.

2. **Bad working conditions in factories:** The nonexistence of safe working environment with long working hours, mechanical and undemocratic working supervision and the existence of negative attitude with workers in factories are the main reasons for people to establish their own cooperatives for improving their living conditions.

3. **Dependency on Traders and Capitalism:**

- The employment of workers with low wages
- Strict working conditions with no freedom of workers in factories without hearing their voice for improving their working situation
- Moreover, a higher level of interest on loans to be paid a shorter period of time
- Economic exploitation along with insulting situation

These have been the main causes for the establishment of workers own cooperatives where the members can exercise their freedom in the decision making.

4. **The Provision of Materials and Tools:** The traders do not provide the necessary materials and tools to the workers at just prices. Sometime the materials and tools are not provided to the workers. As a result, the workers cannot take their own decisions for providing materials and tools which leads to establishment of cooperatives and helping with each other.
5. Self- financial reliance with controlling the economic conditions of the investors in cooperatives will generate income in cooperatives which lay a solid base for self- financial reliance in the cooperatives. This would strengthen the economy of the cooperatives as well as the country economy at large

There are also some others socio economic factors that have created the idea of joint cooperation and working together among the workers for:

- Improving their working conditions
- Good wages for their work
- Just prices for commodities
- Economic independency
- Controlling their economic situations.

Prospects for Agriculture Development in Developing Countries

Farmers in the developing counties experience different types of problems which include:

- Unexpected speed in population growth
- Limited employment opportunities
- Limited investment in agriculture
- Limited understanding of farmers on improved agriculture tools and materials

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- The use of traditional methods of production
 - Farmers ignorance and apathy
 - A lower level of income and lower level of farming productivity.

As such, it is important to learn from their unproductive experience and experience of those who have overcome the challenges in agriculture in the country and beyond. Some of these challenges in developing countries include (Bahram, G.M 2015; Ward A. H, 1975; and Motrans S and Kublabharaman. V 2007).

1. **Old Relationships:** almost in all developing countries the socio-economic situation is based on old and informal economic relationships. This situation has created a greater gap between the big cities and rural areas. Their working relationships in villages and solution to their problems are based on traditional pattern of living. In this regard, the traditional living is being shaped by people with influence and village traders. This coupled with limited socio-economic infrastructures are the problems which prevent development of agricultural in the rural areas.
2. **Ownership of the Resources:** In all the developing countries of Asia, Africa, and Latin America, the resources are in the hands of a few capital owners and the majority of people are deprived of the resources. This situation has led to socio-economic injustice in the rural societies and therefore the just distribution of the resources assumes significance. Otherwise, the farmers and workers productive force will not be used effectively and they will not have a keen interest in work and progress. To overcome this situation, the farmers and workers should be directly part of the process of rural development with emphasis on resources ownership and capacity building of the rural people. Following are the socio-economic programs for the development of rural areas:
 - Access of the farmers to improved technologies, knowledge and skills through on systematic basis;
 - Investment in big agricultural projects like dams, land reclamation etc;
 - Land distribution to farmers on long term installation;
 - Conducting basic research on the main research stations and applied an introductive research on farmer's land;
 - The Implementation of Integrated research system with the components of research, extension services and farmers;
 - Implementation of the agricultural development components which includes research, extension services, capacity building, revolving credit, marketing and policies in a package with complementing and supporting mutual relationship in any project and program dealing with agriculture development;
 - Institutional capacity building and investment on human resource development with focus on changes in knowledge, skills and attitude of the farmers and agriculture personnel;

3. The establishment of agricultural cooperatives and enterprises on the basis of self-help approach towards the achievement of self-help social and self-help financial reliance in any country which will create enough fund and social unity in the process of agriculture development

The Common Aspects of Agricultural Cooperatives in Different Countries

After World War II, Agricultural cooperatives worked well in developed countries but in developing countries, colonialism was the key turning point in the development of cooperative movement. In colonial times, cooperatives were in fact used as a strategic tool to allow people to be grouped together for producing exportable goods essentially for prosperity of the economy of the home country.

Agricultural Cooperatives help farmers solve collective problems, like how to procure inputs most efficiently and market their outputs on more favorable terms than they could achieved by themselves. The agricultural cooperatives main aspects include (Branverman A 1991; Coban David 1987; and Alappa M 2004):

1. **The Nature of Agricultural Cooperatives:** Agricultural Cooperatives (ACs) also known as farmers' cooperatives are cooperatives where farmers pool their resources in a certain areas of activities. As evident from the comparative analysis, the cooperative supporting approach in cooperative has made significant impact compared to individual farmers' activities. The nature of cooperative is to put emphasis on operational plan and strategic activities for the effective realization and materialization of the farmers' needs and aspirations.
2. **Agricultural Cooperatives Goal:** ACs paying the way for food security and rural development. ACs enabling rural poor to overcome poverty

The realization of cooperation impact on the lives of farmers and community at large is inherent in the mutual support being exercised in the agricultural cooperatives which is geared to the utmost sincerely and a higher sense of purpose as exists in cooperation to optimize appropriate use of the resources for the cause of development goal.

3. **Capacity Building in Agricultural Cooperatives:** Agricultural Cooperatives are used by the government, donors and NGOs to extend training and other capacity building techniques.
4. **Main Categories of ACS:** The main categories of ACs fall into mainstreaming activities of agriculture undertaking include supply of agricultural inputs, joint production and marketing. Input supply includes distribution of seeds and fertilizers to farmers.
5. **Agricultural Cooperatives Development:** Agricultural cooperatives development in all the countries has shown that farmers who are effectively organized can benefit from aggregated links to markets and services to achieve higher yield and higher incomes and from speaking with a collective voice to advocate for their needs.

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6. **Joint Cooperative:** Cooperatives in joint production assume the members' producer cooperatives in joint owned agricultural plots.
 7. **Joint Agricultural Marketing:** Joint agricultural marketing of producers' crops, where farmers pool resources for transformation, packing, distribution and marketing of an identified agricultural commodity.

AC is a formal form of farmers' collective action for marketing and processing of products and or for the purchase of production inputs.

8. **Agricultural Cooperatives Role;** The agriculture cooperative role to enable producers to realize economic and social benefit that they could not achieve alone. Agriculture cooperatives facilitate producers' access to:
 - Natural resources such as land and water
 - Information
 - Knowledge
 - Extension services
9. **Credit cooperatives:** Credit cooperatives include the banks and association of the cooperatives. Farm credit system provides farmers and cooperatives with competitive credit.
10. **Agricultural Cooperatives at Global Level:** Countries with the highest share of cooperatives in marketed outputs, (eg Taiwan, Korea, the Netherlands, France, etc) have highest average yield for staple crops like rice and wheat as well as substantial cash crops export.
11. **AC in Africa:** The purpose of the cooperative is to help farmers increase their yield and incomes by pooling their resources. Role of Agricultural Cooperatives in agriculture in Africa include: Marketing facilities, Food security, Productive assets such as seeds, fertilizers and Policy decision making.

Investment in Agricultural Cooperatives

Cooperatives need investment to function but the challenge is to make effective use of the investment in order to achieve their objectives. The main sources of capital for investment purposes are the government, loans and donors and agencies and the members' membership fee and saving.

It is obvious that the farmers and/ or workers need money for the purchase of production inputs and in the meantime selling their products in the market. The amount and type of invest determines the number of activities to be undertaken by the cooperatives. The cooperatives therefore need enough money for operation and some amount for budget reservation to be used in time of crisis.

This is then obvious the cooperatives are to be engaged in business and the business not only needs enough budget

but also how to manage the business to achieve their objectives on cost effective basis. This is why the cooperative members should have enough knowledge and managerial skills for running the cooperative on competitive nature. The capital of cooperatives which includes money, equipment, tools, materials and buildings are in fact the capital to be adjusted to the type and amount of cooperatives activities to be carried out by the members. This requires financial and accounting procedures to be well pronounced and followed by all the members. In this regard, each activity needs budget to be planned and carried out. The planned activities provide a clear picture of the cooperatives future activities aimed at the achievements of each individual member and the cooperatives needs at large (**Nilsson J 2012; Groostent C. and Bastalaer J. 2001**).

It is important to mention that the cooperatives have three types of capital which include:

- Building, land and tools which are needed for carrying out the activities.
- Operational budget for financing the activities
- Saving budget which can be used on unplanned activities and also in the time of cooperatives crisis.

Development Technology and Financial Aspects of Cooperatives

Development technology and the financial aspects are pressing elements towards poverty alleviation program in the developing countries. The farmers are to be connected to the strategic planning process in the effective uses of resources to be pooled in cooperatives. Cooperatives make difference in deploying the right technology which helps the cooperatives members on financial support policy being exercised in cooperation of the cooperative members. Appropriate technology while building on capacity of cooperatives on self- help basis needs to include greater financial inclusion process (**Nilsson J 2012; Groostent C. and Bastalaer J. 2001**).

It is in the framework cooperatives movement which puts emphasis on developing technology along with their financial and other resources that enhance the process of achieving efficiency, stability competition and above all service to farmers. As such, the process of mobilization techniques and information technologies play a key role in the capacity development of cooperatives and their members.

Cooperative Movement

Cooperative movement in some developing countries and continents is discussed below:

Palestine Cooperatives

The growth and development of rural cooperatives in the occupied Palestinian Territory was in spotlight recently, as contingent Palestinian and European journalists visited two cooperatives in **Salfit and Qalqiya** governorates. The visit gave them chance in meeting the beneficiaries and see the first-hand impact of the project in promoting their cooperatives principles and the process of production. The visit was organized by the European Union which provides fund for the development and strengthening rural cooperatives project implement by ACTED in partnership of Economic and Social Development Center of Palestinian and planet Finance (**Korimoto A 2007 and Motrans S and Kulabharanam 2007**).

The cooperatives have been focusing on:

- Responding to emergency needs and disaster
- Co-constructing civil society and effective governance

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- Promoting inclusive and sustainable development and growth

Cooperatives in Africa

The Cooperative movement has been recognized as one of the crucial means of poverty alleviation through institutional development. The African cooperatives are acknowledged for development purposes and poverty alleviation. It is for this reason the cooperatives development have been promoted virtually in all African countries after the colonial period. This has witnessed significant development and growth of cooperatives in many countries in Africa. The number of cooperatives in all African countries are on the verge of increase (**Develtere, Pollet and Wanyama 2008**).

Despite the growth of cooperatives movement in African countries, the problems of development in different aspects of the socio-economic arena have been persisted and they are yet to overcome many problems. The question is as to how the cooperatives have to improve their contribution in the development process in African countries. The purpose of the contribution is to assess the challenges to working with cooperative in Africa as a starting point to strengthen the cooperative movement to effectively contribute to development in Africa. The promotion of organizations to champion development has been the history of cooperative development in independent Africa presently phases into two eras. The first era started from the immediate post-colonial period in the 1950's to middle of 1990, and the second era during the global economic reforms of the economy (**Develtere, Pollet and Wanyama 2009**).

The first ear was characterized by strict government control over cooperatives development through enactment of policies, legislations and programs that promoting cooperatives as a vehicle for accelerating national economic development.

The second era has been the sphere of freeing cooperatives from the state control to enjoy the autonomy and operate like business venture responding to market demand. This arena has witnessed some sort of freedom in the actions of cooperatives.

After the independence, cooperatives policies and legislation gave power to the government to direct and manage the cooperatives. In most cases the role of promotion, control and guidance of the movement was vested in special cooperative development department or Ministries that gave these departments monopolistic positions in the economy. For instance, in agriculture marketing, cooperatives were the sole agents of the State Marketing Board was responsible for processing and marketing export crops like coffee, cotton and pyrethrum. These organizations were mandated by the Board to buy products and process them for export. The State Marketing Board has full responsibility without any particular role of the cooperatives (**Develtere, 2009**).

Although these organizations received little service from the Board but these monopolistic positions ensured them

their survival. The farmers have to join the cooperatives to make use of their services and sell their produce. Moreover, the State owned-sponsored Agriculture Credit schemes were also administered through cooperatives which provided another privilege to farmers to join cooperatives.

The State brought the cooperatives under control not for development of cooperatives and economic development, but to provide jobs for their political support and use them for other political reasons. Cooperatives were subsequently engulfed into State politics and thereby losing their voluntary character losing democratic members' control right which is required for the success of cooperative movement (**Muenkner and Shah 1993**).

State control over cooperatives was enhanced by the preference of international donors to support the cooperative movement through the government. Donor like the Nordic cooperative movement and the American and Canadian credit Union movements funded cooperatives through the governments of respective countries, thereby enhancing the resource influence of the state on cooperative movements (**Braverman et al 1991**).

By the 1980's it was apparent that the cooperative movement lost its democratic characteristics that would have strengthened peoples' solidarity and put members in charge of their organizations. In monopolistic position, cooperative ceased to reach out to their members and it was to members to join the cooperative as dictated by the state. In return, the members' moral to participate in cooperatives declined and some considered cooperatives not as their organizations, but part of the government set up.

Similarly, their financial base has been severely damaged. As government agents, the cooperatives were subject to price control by the government for their produce and they could not get enough return or profit for their operation. The share of members' capital and fee was minimal or completely nonexistent. This led to undercapitalization of the cooperatives, with dependence on external funding. The politics of state patronage has therefore, contributed to corruption, mismanagement, embezzlement of funds.

With this understanding, the focus of the second era of the cooperative development was liberalization to free cooperative movement from the state control in order to remain independent with neo-liberal wave that swept across Africa. The liberalization of the cooperatives resulted into several changes that were necessary in the movement of cooperatives in Africa.

First the state has to withdraw its traditional support role to cooperatives in order to remain in tandem with the spirit of liberalization. In many countries the support services like audit, supervision and management training were the first to be withdrawn by the state. However, there was no contingency plan to replace support services with an alternative institution that could perform the functions. It was assumed that the free market would automatically respond to the demand, for these services by the cooperatives. These measures were followed by reducing the size

of the government departments that previously provided the support services (**Muenkner, H.H and Shah A 1993**), (**Develtere P. Pollet and Wanayama 2008**).

Secondly, in many countries the state restructured the legal framework of cooperatives to give the movement cooperatives autonomy in order to allow them to fit in with the emerging competitive market economy. This could only be done through legal reform that promoted the development cooperatives in accordance to the International Cooperative Alliance (ICA) cooperative principles of:

- Free and open membership
- Democratic member control
- Member-economic participation
- Autonomy and independence
- Training, education and information
- Cooperation among cooperation
- Concern for the community

It was envisaged that this made the management of cooperatives democratic, professional and thereby transformed them from dependent organization to self-control and self-reliant business associations capable of competing with the private enterprises in the market.

Thirdly, the liberalization market attracted new actors in the economic sectors that the cooperatives did not enjoy previously the monopoly status. The market now comprised of many sellers and buyers, who were guided, not because of ownership, but by efficiency, competitive prices and transparency. For instance, in the agriculture sector, the marketing transaction process has radically changed. Previously the ownership of product marketing rested with the marketing Board, which temporally delegated to cooperatives during processing and marketing of the produce. Thus, the cooperatives could claim the ownership of the produce. The cooperatives then could compete with other players to buy and sell agriculture produce to remain in competition with business. This is to survive its existence and operate on professional and competitive to avoid failure and achieve successful business.

The immediate impact of the liberalization of cooperative was the collapse of some cooperatives where there was mismanagement and lack of state supervision and regulatory framework existed before the independency of cooperatives. The newly freedom of the cooperatives was abused by corrupt elected cooperatives leaders. Some of the abuses are (**Muenkner, H.H and Shah A 1993**), (**Develtere P. Pollet and Wanayama 2008**):

- Gross mismanagement by the officials
- Theft of cooperatives resource
- Split of the viable cooperatives into small uneconomic units
- Failure to surrender members deposits to cooperatives by employers

- Failure to hold election in cooperatives.
- Favouritism on hiring and dismissal of staff
- Refusal by management committee members to vacate office after due voting out by the members
- Conflict of interest among cooperatives officials
- Endless litigation
- Unauthorized cooperative investment
- Illegal payment the management committees members

Such problems were more demoralizing than building the solidarity to operate their enterprises. Consequently, many cooperatives especially in those countries where state did not provide urgent corrective measures closed down.

It is important to mention that similar problems have been experienced in some agricultural cooperatives of Afghanistan where the government has to take corrective measures.

Many governments, noticing the collapse of cooperatives, have undertaken corrective regulatory and supporting actions and state control over cooperatives have been increased. Kenya perhaps provided the best example in streamlining the regulatory framework for cooperative movements. The government amended the 1979 the Cooperatives Societies Act in 2004. The main content of the Cooperative Societies Act was to re-enforce regulation the Office Commissioner Development. The legislation stipulated the role of government as:

- Creating policies and legal framework for the cooperatives development
- Improving the growth and development of cooperatives by providing requisite services for the organization, registration, operation advancement and dissolution
- Developing partnership in the cooperative sector through consultation with cooperators on policies, legislation and regulation (**Wanyama 2008**).

The cooperatives in support of the state were to improve their solidarity through organization in meeting their needs and interests. For the first time, the cooperatives got independence in meeting their needs rather than the interests of the state. This new solidarity led people to reorganize from the problems of inefficiency and ineffectiveness for the cooperative unions. Beside the structure reorganization of the cooperative movement, the liberalization has also triggered the diversification of the cooperatives venture to enable survive the market forces and offer competitive services to the members. The loss of monopoly status coupled with the business-oriented demand of the market requires cooperative to redesign their activities competitively. For instance, the agricultural sector remain dominant in the cooperatives ventures in most of the countries, the agricultural activities that are no longer profitable are increasingly abandoned by small farmers in favour of those that are viable in the competitive market.

- Cooperative that previously monopolized the venture that are unprofitable are responding to such action by embracing the provision of other alternative services that farmers may still require on their own ventures. This partly explains why agricultural cooperatives increasingly add saving and credit activities to their portfolio, as is the in Uganda, Ghana, Kenya and Egypt (**Wanyama 2008**).

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- This move to diversify cooperative venture, partly explain why the continent is witnessing substantial growth in the financial sector. In many countries like Kenya, Nigeria, Niger, Rwanda and Cape Verde saving and credit are becoming the largest cooperative sector, while in some, they are financially remain very strong (**Wanyama 2008**).

It also important to mention that the agricultural cooperatives look beyond their national border to market their products in other countries which was not possible under state control cooperative development as such cooperatives are engaged in fair-trade in marketing their produce on competitive basis. To this end, increase in number of cooperative ventures in Africa becomes market-driven and responsive to changing circumstances that are beyond the national borders (**Muenkner H.H and Shah A 1993**) and **Rube R and Heras J 2012**).

What is certainly emerging from the field is that as result of the liberalization of the economy many cooperatives is steadily offering cooperatives opportunity to reinvent their solidarity and rally business ideals among their members. The available data suggest that such opportunities are increasingly being utilized by the cooperative to tap the economies of scale to improve productivity of their members. Such cooperatives are demand driven and operate as business organizations. The result is improvement of the cooperative performance as evidenced by:

- High turnover of cooperatives
- Improved income to the participating members
- Improved socio-economic services to members and the community at large.

Asian Cooperatives

The agricultural economy has been predominant in most of the Asian countries. It plays an important role in the economic development of the Asian developing countries. The industrialization process in these countries included management, marketing, sociology, history and finance and so on in relation to cooperative movement.

In colonial period, cooperatives had been established by imperial regimes through top down legislation, such the Indian Cooperative Credit Societies in Act 1904 promoted as engine for socio-economic development in the newly independent states. But then they evolved and developed unique models that can be emulated in other regions (National Federation of Cooperative).

Multipurpose agricultural cooperatives (Japan and Korea) provide members with function that cover all aspects of farmers' life from supply and marketing to credit and insurance, from hospital and clinics to nursing homes and funeral services etc. This is in contrast with single purposes cooperatives in other countries. Now this model is being challenged by regulatory and competitors (**Hasan, S and Lyons M 2008**).

Dairy cooperatives present the most successful model with varied structures. **Fonterra** in New Zealand is the largest exporter of dairy-products in the world. It consists of entrepreneurial large farms with hundreds of cattle. On the other, **Amul** Dairy cooperatives in India representing a model of developing program has been termed as the White Revolution, collecting milk from hundreds thousands farmers breeding a few cattle and thus contributing to enhanced living standard. Fair price cooperative in Singapore has been successful in the development of supermarket and secured a dominant position in food retailing. This model is being emulated by Saigon cooperative in Vietnam

(Brverman 1991).

Credit Unions and cooperatives Banks are proliferating in Korea, Philippines Malaysia, Thailand, India Sri Lanka, Australia, etc. serving the population who otherwise have been financially excluded. They provide farmers and workers with low interest loans to help them undertake economic activities based on common bonds. They are operating micro credit in much larger scale than the focus of *Grameen Bank* (Brverman 1991).

Health cooperatives are organized by consumers in Japan, Korea, Philippines Malaysia and Singapore and/or professionalized in Mongolia, Philippines Malaysia, India, Nepal and Sri Lanka. They are delivering health services in hospitals and clinics and related social services in different socio economic and institutional setting. They proved to be the effective provider of the indispensable health services, which otherwise are not accessible to local residents. They provide greater emphasis on health promotion by combining consumers learning activities and professionals help (Birchall J. 1997 and Schwaz F. J 2001).

Women cooperatives are often organized exclusively by women to empower women leaders in Korea, India, Malaysia, Iran etc. the reasons to form women cooperative are varied which include:

- To avoid male domination in mixed membership
- To conform to religious norms of gender segregation
- To promote feminist cause

The cooperative development programs have been coordinated by ICA since 1960's by generous financial assistance from SIDA. Later, aid of other international bodies was also added which included LIO, CIDA, CCA, DID, JAICA and others. The international policies have focused on:

- Cooperative Law reform
- Improved governance and management
- Women and youth participation in cooperative and so on

In financial sector, cooperative banks and credit unions in many countries provided financial services to members ranging from micro credit at grassroots to full-fledged banking services through regional and national networks. It is imperative to develop national/regional networks to contribute to the development of global cooperative movement. In this field, there is a need to learn from European cooperatives unions like French Higher Council for cooperatives and Cooperative movement in European Union, etc. Furthermore, it is important to learn how to strengthen cooperative identity, improve governance and professional management, promoting member's participation, cooperative education using national, regional and international experience particularly in the area of regulation, setting policies and cooperation among the cooperatives (Hasan, S and Lyons M 2008).

Membership in ACs is voluntary and compulsory membership is associated with declining outputs and per capita. In this regard dairy cooperatives in Kenya, coffee in Ethiopia and cotton in Mali have been very successful.

Taiwan, India and Vietnam also show that rural cooperatives can be instrumental in sector transformation. Agricultural Cooperatives of smallholders have been critical in achieving government development strategy.

European Cooperatives

European farmers' cooperatives are specifying position of farmers in ACs for their benefits. After the 19th century, a formal type of cooperative is known as "user-owned and user controlled business that distributes benefits on the basis of use". Cooperative is an independent organization with voluntary membership, functioning within the principles of user-own, user controlled and use-benefits (**Birchall J 1997**).

Agricultural Cooperatives are agricultural-producer-owned cooperatives whose primary purpose is to increase members' / producers' production and incomes by helping better links with finance, agricultural inputs, information and outputs market (**John Salaaz 1987**).

Cooperative Movement in Latin America

Cooperatives have long history in this continent and every country has some sort of cooperatives aimed at economic development. The cooperative sector in Latin America is diverse and has created positive socio-economic impacts on the lives of participating members and the community at large. (**Ruerd Zvi Leman 2001**)

The main objectives of the cooperatives in this content are:

- Reduce poverty
- Increase employment
- Stream gender activities
- Democratize cooperative

The credit union sector has been developed along with cooperative development dealing with socio-economic aspects of the members participating in the cooperatives. One of the biggest challenges in cooperative movement in the Latin American countries is the legal framework to be a model for development purpose (**Groosten and Bastlaer J 2001**).

The Latin American cooperatives play an important role in the empowerment of communities to have access and manage essential services such as water, energy, affordable housing and health care. There are different types of cooperative serving the communities in all aspects of life. For instance, women, transport and financial cooperatives are the most important cooperatives that have a visible impact on the life the members. The financial cooperatives helped members to purchase own house, vehicle and other items for their wellbeing.

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