The marketing service of a cooperative is - in principle - very simple. This is how it works:

The members deliver their produce to the co-operative.

The co-operative sells the produce “on the market” at the best possible price.

The co-operative passes on the money to the members who have delivered the produce.

When we talk about “the market”, we do not mean one specific market-place. Instead, we mean all possible buyers of the produce. It could be mills, factories, food stores, an exporter and so on. The co-operative has to find the best buyer “on the market”.

Let us compare a marketing co-operative with a private produce-dealer. What is the difference?

The private dealer:
A private dealer usually buys the produce from the farmer. He pays the farmer as little as the farmer will accept and then he sells it for as much as he can get. The profit goes into his own pocket.
The co-operative:
The aim of a co-operative is to make the best profit it can for its members, the farmers. The co-operative collects the produce and sells it - on behalf of the farmer - for as much as it can get. The entire income belongs then to the members themselves. There is no private dealer or other “middle man” to reduce the producers’ profit.

We have said that the marketing aspect is - in principle - very simple. In practice, however, the actual procedures maybe rather complicated. To make sure that the produce is sold for the best prices and that their business affairs are properly handled, the members of the co-operative need to appoint a management committee and a manager.

The committee and the manager will have many “economic matters” to discuss. Here are some examples of such questions:

• What will it cost to run the co-operative society (wages, transport, etc.)? Who will pay these costs?

• When and how should we pay the members for the produce? (The problem is that members want payment already when they deliver the produce, but the co-operative may not have any money until it has sold the produce on the market later on.)

• How should we manage our business so that farmers really benefit from being members of a co-operative?

On the following pages we will take up these questions as we discuss “the basic economics” of a marketing co-operative.

Capital is crucial

Without a certain amount of money (CAPITAL), a marketing co-operative cannot help its members. Think about all the expenses involved in collecting, storing and marketing the produce:

• A warehouse will have to be bought or rented so that members of the co-operative can bring all their produce together in one place.

• The co-operative will need equipment, such as a weighing machine, a safe to put cash in, a table and some chairs for the office.

• The co-operative will require cash to pay its members for their produce. (It will later be able to recoup this money when it sells the produce on the market, but farmers will want at least an “advance payment” on delivery.)

So, capital is needed for:
Raising the capital

The capital, or the money which must be raised to start a co-operative, may come from several sources:

*Share capital*

Members can each put in a small amount of money, which will give them a share in the co-operative. This is called “share capital”.

*Loans*

Being, small farmers, the members may not be able to contribute all the money the co-operative needs to start business. Therefore, the co-operative may have to ask for loans, e.g. from banks, or contributions from other sources, e.g. development funds. The lenders will probably require the co-operative to pay interest and to pay back part of the loan every year.

No matter where a co-operative obtains its capital, it is important that the co-operative have enough money to start up its business and to keep it going. Let us study the case of the Valda Agricultural Co-operative, which started some years ago with marketing services for its members, who were maize-growers.

Capital was raised as follows (we will use an imaginary currency called training dollars or T$):

<table>
<thead>
<tr>
<th>Source of Capital</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital contributed by members</td>
<td>40,000</td>
</tr>
<tr>
<td>Grant from the local government</td>
<td>10,000</td>
</tr>
<tr>
<td>Loan from the co-operative bank</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>90,000</strong></td>
</tr>
</tbody>
</table>

The money was used as follows:

<table>
<thead>
<tr>
<th>Use of Money</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction of the warehouse</td>
<td>50,000</td>
</tr>
<tr>
<td>Warehouse and office equipment</td>
<td>5,000</td>
</tr>
<tr>
<td>Cash remaining</td>
<td><strong>35,000</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>90,000</strong></td>
</tr>
</tbody>
</table>

*Fixed assets*

The Valda Co-operative started with founding capital of T$90,000. The members spent $55,000 on building a warehouse and buying equipment, including a weighing machine, wooden pallets to stack the bags of maize, some other store equipment and office furniture. Without these things, the co-operative cannot operate. They are not for re-sale to anybody. They are FIXED ASSETS of the co-operative and will be used for several years in running the business.

*Working capital*

After paying for the warehouse and for essential equipment, the Valda Co-operative had T$35,000 remaining. Most of this money was used to pay members an “advance” when they delivered their maize. This was a cash payment towards the full price of their crop.

Later on, the maize was sold on the market. Buyers paid the Valda Co-operative much more than T$35,000, so the members were now given an extra “final payment”. But the cooperative had to keep at least T$35,000 so that it would be able to pay an advance on the next crop.

This is how business works. The members are paid, the cooperative recoups the money from the buyers, some of this money is used to pay for the next crop, and so on....
The T$35,000 was the Valda Co-operative’s WORKING CAPITAL. It is the working capital that makes the trading possible. It must always be available, not only in the beginning, but for as long as we want the business to continue.

The Valda Co-operative was very careful with its working capital. Of course, sometimes it had little money left, but then the warehouse was full of produce. Once produce was sold, the co-operative had plenty of money again. The working capital represents the value of the available money, plus the stock of produce in the warehouse, at any one time.

A sure way for a co-operative to go out of business is for it to spend the working capital unwisely. It will then not have enough money to pay its members for their crop at the next harvest time.

**Running costs**

It costs money to run a co-operative business. The staff must receive their wages, assets and stock must be insured, the crop must be transported from farmer to buyer, etc. Where might a co-operative find the money to pay for all these RUNNING COSTS? Let us take an example from the Valda Co-operative again.

One year the Valda Co-operative received a total of T$60,000 after selling the maize crop. It had already paid T$35,000 to its members in advance, and was now in a position to pay them another T$25,000. The co-operative would still be left with the T$35,000 working capital that it had from the beginning, and this would be set aside again to pay for the next maize crop.

But the co-operative cannot give the members all the money that has been received for the maize. The co-operative must keep some of it as a COMMISSION or LEVY in order to pay for the running costs. The running costs could be as high as T$7,200 this year. So before giving members their final payment, the co-operative must keep back a commission of T$7,200 from the income it will distribute.

\[
\text{SALES OF MAIZE} \quad - \quad \text{COMMISSION FOR THE COOPERATIVE} = \quad \text{TOTAL PAYMENT TO MEMBERS}
\]

\[
T$60,000 \quad - \quad T$7,200 \quad = \quad T$52,800
\]
The commission or levy taken on the sales of produce in order to cover the running costs is often given as a percentage of total sales. This is calculated as follows:

\[
\text{Running costs} \times 100 = \frac{\text{Total sales}}{\text{Running costs}}
\]

For the Valda Co-operative this is:

\[
\frac{T\$ 7,200}{T\$60,000} \times 100 = 12\%
\]

So it can be seen that the Valda Co-operative was working on a commission of 12%.

**Surplus**

The sales and the running costs of a co-operative are difficult to predict exactly. But a wise co-operative manager always tries to plan and run the business so that there is some money left over at the end of the year, once all costs have been paid. This is what happened in the Valda Cooperative:

\[
\begin{align*}
\text{COMMISSION} & \quad 7,200 \\
- \text{RUNNING COSTS} & \quad -6,000 \\
= \text{NET SURPLUS} & \quad 1,200
\end{align*}
\]

The running costs were lower than the commission, so there was some money left over. This is called the NET SURPLUS. For a private dealer, this is the NET PROFIT. It is his personal income. But a co-operative is different. We said earlier that all the profit in a co-operative goes to the members because they are the owners of the business.

In a co-operative the net surplus belongs to the members. In Lesson 3 we will discuss how the net surplus could most productively be used.

Now see if you can answer these questions before moving on to Lesson Two.

1. Explain the basic functions of a marketing cooperative.

2. Will farmers make more profit by:
   - Selling their produce individually to private dealers, or
   - Joining a cooperative and selling their produce cooperatively?

   Give reasons for your answer.