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Review

Reviewing theory, practices and dynamics of agricultural cooperatives: Understanding cooperatives' development in Namibia

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This paper reviews the principles of cooperatives as outlined by the International Cooperative Alliance. The evolution of agricultural cooperative thought, theory, and purpose as well as problems associated with cooperatives are reviewed from the standpoint of how cooperatives can provide benefits to their members. Globally economists, social theorists, and politicians have drawn considerable attention to the early dynamic development of cooperatives for their achievement of self-help through group action. Given the new perspectives on cooperative theory and the scope of changes in how cooperatives operate and are structured, cooperatives have even greater potential for coordinating self-help actions, but this potential needs the support of cooperative education services. The development and growth of cooperatives in Namibia, as in many other countries worldwide, have gone through substantial structural transitions in an effort to adjust to a rapidly changing economic environment characterised by increasing globalisation, economic crises, environmental uncertainties and agricultural industrialisation. The main problems and future of cooperatives, specifically agricultural organisations, are also highlighted in this paper.

Key words: Agricultural cooperatives in Namibia, new institutional economics, transaction costs, property rights, agent theory.

INTRODUCTION

The cooperative as an organisation is characterised by member ownership, control and benefit. A cooperative is an Organisation, which is guided by rules in its day to day activities. If institutions are the rules of the game, then organisations as well as entrepreneurs are the players. Therefore, there is need to comprehend the concept of New Institutional Economics (NIE) with regard to its application to cooperatives. NIE is a multi-disciplinary field characterised by aspects of economics, political science, sociology, business organisation, law and history. Moreover, the Namibian government is promoting the use of cooperatives as business organisations that could help in the development of farmers with specific emphasis on emerging rural small-scale farmers. One of the main objectives of the Namibian National Cooperative Policy (1992) is to create an economic, legal and institutional environment which is conducive to the progress and growth of all types of cooperative in Namibia. In order to achieve growth and improvement in the agricultural sector, the Namibian government assists in developing entrepreneurial, organisational and managerial skills for farmers who are members of cooperatives. Thus cooperatives are invariably involved in income generation and employment creation activities which thereby improve the living standards of many Namibians. The question that needs to be addressed is what has been the progress of cooperatives in Namibia?

Little research has been conducted on reviewing theory and assessing, investigating or examining the principles of agricultural cooperatives in practice in Namibia. However, some studies have been undertaken in South Africa (Ortmann and King, 2007). The objective of this paper is to review and assess the principles of traditional

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organisation of agricultural cooperatives and how they are operating in Namibia. This will give an overview to farmers, policy makers, government extension officials, non-governmental organisations and other stakeholders and show to what extent cooperatives have developed in Namibia.

Theory of cooperatives

Characteristics of cooperatives

According to the definition of the International Cooperative Alliance (ICA, 2005-2010) a co-operative 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. Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity (ICA, 2005-2010). The cooperative enterprise is conventionally held to be a non-profit institution guided by the principle of service at cost for the benefit of patrons (Helmberger and Hoos, 1962). The cooperative model of enterprise can be applied to any business activity. For example, types of cooperatives include producer, consumer, workers and service cooperatives. Ortmann and King (2007) maintain that in general, agricultural cooperatives can be classified into three broad categories according to their main activity namely:

(1) Marketing cooperatives, which may bargain for better prices, handle, process or manufacture and sell farm products,
(2) Farm supply cooperatives, which may purchase in volume, manufacture, process or formulate, and distribute farm supplies and inputs such as seed, fertilizer, feed, chemicals, petroleum products, farm equipment, hardware, and building supplies, and
(3) Service cooperatives, which provide services such as trucking, storage, ginning, grinding, drying, artificial insemination, irrigation, credit, utilities, and insurance.

Further, the same authors point out that most of the agricultural cooperatives are relatively small businesses. Empirical evidence suggests that profit margins are generally lower in markets with a substantial cooperative presence (Rogers and Petraglia, 1994; Haller, 1993 cited by Torgerson et al., 1998: 11).

Cooperatives may have increasingly important roles to play in providing agricultural producers access to markets and providing vehicles for capturing value added (Torgerson et al., 1998). Using the dynamic model, Royer and Smith (2007) argued that contrary to conventional thinking, cooperatives can successfully distribute surplus earnings to producers as patronage refunds, while using prices as instruments for achieving and maintaining optimal output levels. However, the existence of patronage refunds limits the ability of cooperatives to restrict producer output to optimal levels and that, as a result, cooperatives are unable to pursue objectives or exercise market power in the same manner as other firms.

History of cooperatives

Historians have found evidence of cooperation between many groups of people in Europe, Middle East, America and Africa. According to Zimbelman (2007) early agriculture would have been impossible without reciprocal aid among farmers. She also stated that farmers relied on one another to defend land, harvest crops, build barns and storage buildings, and share equipment. These examples of informal cooperation of working together were the pioneers to the cooperative form of business. According to Fairbain (2004), cooperatives were typically formed by those experiencing difficulty in dealing with aspects of economic change. The earliest cooperatives originated in Europe around the late 18th and early 19th century. One of the most common cooperatives which resulted in the genesis of the modern cooperatives movement was the formation in 1844 of the Rochdale Equitable Pioneers Society. This was a consumer cooperative established in Rochdale, in northern England, by a group of twenty eight workers in a weaving factory in the form of a shop.

However, the Rochdale Pioneers were not the first group to try forming a cooperative, but they were the first to make their cooperative succeed and endure by avoiding the mistakes made by earlier cooperative societies and to help others, they developed a list of operating principles governing their organisation (Zimbelman, 2007). Another important development regarding cooperatives serving as credit or banking institutions was the establishment of the first savings and credit cooperative in 1864 by Friedrich Wilhelm Raiffeisen in Germany. The objective of the Raiffeisen Bank was to provide savings and credit services in urban and rural areas based on the idea of “self-help” (Ingalsbe and Groves, 1989, as cited by Ortmann and King, 2007).

New institutional economics and cooperatives organisation

Transaction cost economics, agency theory, and property rights analysis have been collectively referred to as "a new institutional" or "neo-institutional" economics (Vitaliano, 1983; Cook, 1995; Royer, 1999; Ortmann and King, 2007).

Transaction costs economics

Transaction costs refer to a legal agreement or contract between two or more partners engaged in trade, including the costs of searching for trading partners, related negotiations, information management, monitoring and even the enforcement of contracts (Kherallah and Kirsten, 2002). However, such costs need to be distinguished from production costs, which have tended to be a preoccupation of neoclassical analysis. Neoclassical theory assumes inter alia that transaction costs are zero, adjustment costs are zero, all resources are fully allocated and privately held, and owners allocate resources to uses purely in response to pecuniary incentives (Royer, 1999). The term transaction cost economics (TCE), was first introduced by Williamson (1975, 1985) and has since come to be associated with bounded rationality which dated back to Simon's work (1957). TCE embodies the economic foundations of supply-chain management that dates back to the relatively early work done by Coase (1937) in pioneering the outcome of transactions costs when he established that market exchange is not costless. Coase's (1937) justification was cast in terms of the inefficiencies of transacting in a world of imperfect information. Thus, contracts play a crucial role because they enable the parties to fulfil their obligations by protecting them from opportunistic behaviour by one or more parties in a transaction (that is to seek private gain at the expense of the group), thus lowering the costs of transacting.

However, according to Royer (1999: 46) and Ortmann and King (2007:53) not all contracts are equally effective, and the ability of a contract to facilitate exchange depends on the "completeness" of the contract and the relevant body of contract law. Royer (1999) identify three causes of incomplete contracts namely:

(1) Bounded rationality (that is limits on the capacity of individuals to process information, deal with complex issues and consider all possible contingencies),
(2) Difficulties in specifying or measuring performance, and
(3) Asymmetric information (that is when the parties do not have equal access to all information relevant to the contract), which will inevitably result in opportunism (hidden information known as adverse selection or hidden action known as moral hazard) and transaction costs.

Transaction costs analysis also focuses on the opportunism that can be associated with asset specificity. Williamson (1985) distinguishes asset specificity as: 1) site specificity, 2) physical specificity, 3) human specificity, and 4) dedicated specificity. Sykuta and Chaddad (1999) add another form of specificity of importance to agricultural transactions namely, the temporal specificity. Temporary specificity results from the time-sensitive value of agricultural products and production processes which create another margin which may entice opportunistic behaviour by trading parties (Sykuta and Chaddad, 1999). A strategic aspect relevant to many agricultural producers is the problem of asset fixity or specificity that may render them vulnerable to opportunistic behaviour by product purchasing firms (Torgerson et al., 1998).

Thus, a problem of holdup arises "when one party in a contractual relationship seeks to exploit the other party's vulnerability due to relationship-specific assets" (Royer, 1999: 49). Once investments in relationship-specific assets have been made the trading parties involved may have few or no alternative trading parties, which eliminates competitive trading such that the asset's opportunity cost will fall because its value in its next-best use will be less than its value in its current use as a result creating quasi-rents. A quasi-rent is the portion of a relationship-specific asset's earnings in excess of the minimum required to keep the owner from exiting the relationship once the investment has been made (Royer, 1999). Moreover, three characteristics of a transaction are critically important in determining the optimal institutional arrangement namely: frequency, uncertainty and asset specificity (Williamson, 1985).

Principal - agent theory

The agent relationship, also referred to as a principal-agent, is defined as an explicit or implicit contract in which one or more persons (the principal) engage another person (the agent) to take actions on behalf of the principal (Barry et al., 1993). Principal-agent problems arise because the objectives of the agent are usually not the same as those of the principal, and thus the agent may not always best represent the interests of the principal (Alchian and Demsetz, 1972; Royer, 1999; Sykuta and Chaddad, 1999; Ortmann and King, 2007). So, to better align the goals of the agent with those of the principal agent, costs are incurred in structuring, administering, enforcing and adapting the terms of contracts. The primary focus of agency theory is on incentive and measurement problems, and, whereas the basic unit of analysis in transaction cost economics is the transaction, in agency theory it is the individual (Mahoney, 1992). In an agency relationship, the agent usually has more information than the principal about the details of individual tasks assigned to him and, of course, about his own actions, abilities, and preferences (Eggertsson, 1990).

Notably, agents often take advantage of the high cost of measuring their characteristics and performance and enforcing a contract and engage in shirking or opportunistic behaviour. Shirking is defined as a deviation from expected behaviour by employees that reduce the productivity of the firm concerned (Karaan, 1999: 686). Most applications of agency theory focus on the incentive versus risk sharing trade-off of contracts aimed at aligning the interests of the agent with those of the principal (Sykuta and Chaddad, 1999: 72). Agency theory is thus very relevant to the institutional structure of cooperatives because employed agents (managers) may not act in the best interests of cooperative owner/members (principal) (Ortmann and King, 2007). From an agency theory perspective, an organisation can be viewed as a "nexus of contracts" between individual economic agents who supply resources to a productive activity in exchange for various claims on the cash flows generated by the activity (Fama, 1980). According to Fama and Jensen (1983), the emergence of complex organisations can be attributed to the advantages of having management and risk-bearing services provided by agents who are knowledgeable and skilled in these activities. Royer (1999) argues that managers provide decision-making services to the organisation in exchange for fixed claims on its cash flow and do not directly bear the financial risks of their decisions. Other individuals provide capital resources to the organisation and accept its financial risks in exchange for the "residual claims" on the cash flow, that is, the difference between the organisation's income and the fixed claims (Royer, 1999: 50). Fama and Jensen (1983) argue that when residual risk bearing is separated from decision management (the initiation and implementation of decisions), decision systems will evolve to separate decision management from decision control (the ratification and monitoring of decisions).

The choice of a particular capital structure (debt-equity combination) may be used to lower agency costs (Sykuta and Chaddad, 1999). Agency costs are the bonding costs of the agent, the monitoring costs of the principal, and the residual loss. Jensen and Meckling (1976) suggest that the correction of agency problems may lie primarily in the manipulation of the composition of ownership shares between decision makers within the firm and stakeholders outside the firm. The Agency theory when applied to literature includes share-cropping contracts, rural credit, incentive contracts in corporations and cooperatives, insurance contracts, etc. based on the transactional contract between principals and agents (Sykuta and Chaddad, 1999). Principal-agent relationships in a cooperative probably give rise to member dissatisfaction (Ortmann and King, 2007). Cooperatives experience greater principal-agent problems than proprietary firms because of the lack of capital market discipline, a clear profit motive, and the transitive nature of ownership (Richards et al., 1998: 32). Cooperatives may also have greater difficulty of designing incentive schemes for managers that will align their personal objectives with those of the cooperative (Ortmann and King, 2007).

Property right theory

The property right theory is based on the importance of asset ownership and control (Royer, 1999). Establishing property rights to assets involves transaction costs. The NIE links the minimisation of these transaction costs with the creation and design of different forms of organisation and contracting (Torgerson et al., 1998). Property rights theory is also entrenched in the literature about incomplete contracting of the firm and was developed by Grossman and Hart (1986), and Hart and Moore (1990, 1999).

Moreover, Torgerson et al. (1998: 6) pointed out that for many policy analysts, the economics of property rights can help explain and correct many kinds of market failures and provide alternative solutions to those of activist government. These authors also briefly discussed the conditions for stable and optimal cooperation for control over, and use of a common property asset. According to them such common property is a public good in that all members have equal access and their use does not detract or diminish the use by others in the group. However, such local or group public good depend mainly on restricting the membership size.

Problems allied with cooperative organisational enterprises

Here, we discuss problems related to the organisational form of cooperatives as presented by Cook (1995) and also discussed by Royer (1999) and Ortmann and King (2007). These include the problems of free riders, horizons, portfolios, control, and influence costs.

Free rider problem: Cook (1995), the free-rider problem emerges when property rights are untradeable, insecure, or unassigned. Free-rider problems are often associated with cooperatives, both within (internal) and outside (external) the organization. An example of internal free rider problem occurs when dealing with the common property problem. Since the rights to residual claims in a conventional cooperative are linked to patronage instead of investment, new members receive the same patronage and residual rights, as existing members though the new members are not required to make up-front investments proportionate to their use. External free rider problems are created whenever a cooperative provides its members with collective goods characterised by *de facto non-* feasibility of exclusion; collective goods must be available to everyone if they are available to anyone (Olson cited by Iliopoulos and Cook, 1999: 80).

Horizon problem: The horizon problem arises “when a member’s residual claim on the net income generated by an asset is shorter than the productive life of that asset” (Cook, 1995: 1156). Consequently, the member is likely to under invest in the asset because the return to the investor is less than the return generated by the asset (Royer, 1999; Ortmann and King, 2007). The benefits a member receives from an investment is limited to the time period or horizon during which the member expects to patronise the cooperative (Royer, 1999; Ortmann and King, 2007).

Portfolio problem: Cook (1995: 1157) refers to the portfolio problem as another equity acquisition problem from the perspective of the conventional cooperative firm. Contracting with the cooperative exposes members to various degrees of both production and price risk, while investment in the cooperative results in investment risk (Fulton and Hueth, 2009). Therefore, members are unable to diversify their individual investment portfolios according to their personal wealth and preferences for risk taking (Royer, 1999: 55; Ortmann and King, 2007: 58).

Control problem: The control problem in Cook's (1995) view is introduced by the agency costs which are associated with trying to prevent the divergence of interests between the cooperative members and their representative board of directors (principal) and management (agent). Royer (1999: 55) and Ortmann and King (2007: 59) argue that preventing the divergence of interests may be more of a problem in conventional cooperatives because of the absence of a market for exchanging equity shares and the lack of equity-based management incentive mechanisms available to other firms.

Influence costs problem: According to Cook (1995), influence costs problem within a cooperative's organisation influence a wide range of activities, causing harmful influence to activities of members. The size of influence costs relies on, the existence of a central authority, the kinds of procedures that govern decision making, and the degree of homogeneity or conflict in the interests of cooperative members (Milgrom and Roberts (1990); as cited by Cook (1995), Royer (1999), Ortmann and King (2007).

Future of the organisational form of cooperatives

The question to be posed is under which conditions would farmers benefit from collective action and form a cooperative. Staatz, as cited by Royer (1999); Ortmann and King (2007: 56) observed that many of the benefits cooperatives have to offer farmers stem from the holdup problem and the opportunistic behaviour associated with asset fixity. For instance, Royer (1999: 53) (Ortmann and King, 2007: 56) uses the standard example of the holdup problem in agriculture which involves the producers and processor of a perishable commodity. If an alternative buyer does not exist, producers may be susceptible to holdup by the processor. Once harvest approaches, the processor can refuse delivery of the commodity in an effort to force producers to accept a lower price. Producers, who face having their crops ruined by spoilage, are pressured to accept the processor's terms. On the other hand, a processor who has made idiosyncratic investments in plant and equipment geared toward processing the commodity is also susceptible to the threat of a holdup by the producers if there are no other suppliers. A solution strategy for producers to eliminate or minimize the holdup problem is for them to purchase the processing plant, hence, the performance of vertical integration. Cook (1995) concludes that cooperative strategic options consist of: 1) exit, 2) continuation, or 3) transition.

Exit option: According to Cook (1995) two alternatives available for a cooperative under the exit option exist namely: to liquidate the business or to restructure as an investor oriented firm (IOF). The poor-performing cooperatives opt to liquidate or merge with other cooperatives, while high performing cooperatives restructure as IOFs (Schrader, 1989). Restructuring is an answer to changing market conditions, requiring the cooperative to invest (more) in research and development, marketing and (international) growth (Bijman and van Bekkum, 2005).

Continue option: Cook (1995) suggests that under the continue option, the two alternatives available for a cooperative are: to seek outside equity capital without restructuring as an investor oriented firm (that is strategic alliances are utilised as equity capital-seeking strategies) or to pursue a proportionality strategy of internally generated capital.

Transition option: Cook's (1995) final option is the transition (shifting) option which means conversion (demutualisation) to a new generation cooperative (NGC). A NGC is defined by value-added processing activities and a linkage of producer capital contributions to product delivery rights (Royer, 1999). Equity shares and the associated delivery rights are tradable (subject to approval of the board of directors), and share prices can appreciate, reflecting members expected returns over time (Ortmann and King, 2007:61). NGCs have their drawbacks, such as the limiting of entry of new members and maintaining an effective governance structure (e.g. undue pressure exerted by members on management to link voting rights to delivery rights owing to their high financial stake in the business) (Royer, 1999; Ortmann and King, 2007).

Finally, Harte's (1997) life cycle model maintains that cooperatives are initially useful instruments for correcting or mitigating market failures (Royer, 1999). In order to confirm the empirical analyses of the cooperative life cycle, two types of hypotheses are relevant according to Royer (1999) namely the statistical analyses of the comparative efficiency of cooperatives and the ex post studies of cooperative conversions. Porter and Scully (1987) as cited by Ortmann and King (2007) concluded that cooperatives were less efficient than investor oriented firms (IOFs) and that their relative inefficiency was caused by the inherent weakness in their property rights' structure. However, Sexton and Iskow (1993) argue that there is little credible evidence that cooperatives are less efficient than investor-owned businesses. The greatest strength of cooperatives is their ability to generate institutional innovations that allow them to respond to changing conditions and needs (Ortmann and King, 2007).

Agricultural cooperatives in Namibia

In general, agriculture in Namibia is strongly affected by general economy change. The challenges facing local farmers, particularly smallholder emerging farmers in rural areas, need to be addressed. These challenges include new technologies, new crop varieties, and procurement of production inputs, marketing agricultural output and new industries. Perishability of agricultural products and poor infrastructure create special challenges for small scale farmers in Namibia. All these and other constraints call for cooperation among small scale farmers. The question that needs to be addressed is that, if cooperative organisations are desirable, why are there so few formally registered cooperatives in Namibia.

All cooperatives functions before Namibia independence in 1990 were performed by the Registrar in Pretoria, South Africa. This was done under the old Ordinance No. 15 of 1946 (ordained by the Legislative Assembly for the Territory of South West Africa), and strongly affected the South African version (National Cooperative Policy, 1992). Today, both the National Cooperative Policy (1992) and the National Agricultural Policy (NAP, 1995) recognise that the most important objective with regard to cooperatives is to create an economic, legal and institutional environment which is conducive to the progress of all types of cooperatives in Namibia. These policies further recognise that cooperatives are part of the private sector and that they are an important option for socio-economic development but that cooperatives are not instrument of the state. The oldest documented cooperatives in Namibia were Agra cooperative and Alfa cooperative. The former was started as an agricultural cooperative whilst the latter started as a consumer cooperative. Agra Cooperative Ltd was formed in 1980; when it took over the operations of the South African farmers' cooperative, Boere Kooperative Beperk (BKB). The BKB itself came from the two South African based cooperatives, namely the farmers' cooperative (FCU) and Boere Saamwerk Beperk (BSB). The main objective of the cooperatives was marketing wool and karakul pelts (Agra, 2004; Vigne, 2001).

On the other hand, the Alfa Cooperative is the oldest cooperative in Namibia which was started in a garage by post office workers and was registered in terms of the Republic of South Africa's legislation on 2 October 1964, as a self-help consumer cooperative. In the early 1960s, there were no big supermarkets in Namibia and those shops that did exist in Windhoek were very expensive. A public meeting was held by colleagues who worked together in the Post Office in Windhoek and eighty-nine people signed up at the first meeting and elected a committee to draft a constitution. Initially, membership was restricted to civil servants only, and, in keeping with the laws of the time, to whites only (Vigne, 2001). In 1966, membership was opened to non-civil servants who were allowed to sit on the cooperative board. Today, all cooperatives in Namibia adhere to the Namibian Cooperatives Act (No. 23 of 1996). The Cooperatives Act of Namibia (No. 23 of 1996) was based on international principles (ICA). It was published in the Government Gazette on 20 December 1996 and aims to provide for the formation, registration and winding-up of cooperatives in Namibia. A wide variety of cooperatives can register in terms of the Cooperatives Act (No. 23 of 1996) based on two main categories, namely: 1) workers' cooperatives and 2) service cooperatives.

Service cooperatives include marketing and supply cooperatives (agricultural cooperatives), consumer cooperatives, housing cooperatives, savings and credit cooperatives. As far as agricultural cooperatives are concerned the main activities include livestock marketing, marketing of crops (pearl millet marketing), seed multiplication, and provision of agricultural inputs (seeds, fertilisers and ploughing services). Other related cooperatives include saving and credit cooperatives and cooperatives for indigenous plants. According to the Cooperatives Act, 1996 at least seven people are needed in order to form a cooperative. The National Cooperative Policy of 1992 recognises the establishment of the Division of Cooperative Development which is currently within the Directorate of Planning, Ministry of Agriculture, Water and Forestry (MAWF). The Division recognises the active role and cooperation of the Government, parastatals, private organisations and non-governmental organisations. The functions of the Division include regular advisory functions to the Government regarding cooperative development, through the Cooperative Advisory Board and administration of the Cooperatives Act of Namibia as functions of the Registrar of Cooperatives which seek to support cooperative development in Namibia (National Cooperative Policy, 1992).

The Cooperatives Act of 1996 mandates the registrar of cooperatives to submit an Annual Report on the development of cooperatives and requires the minister in charge of the cooperatives division to table a copy in the National Assembly. The dual functions of the Report to be carried out by the Office of the Registrar are the administration of the Cooperatives Act and facilitation of the development for the cooperative sector by the Division of Cooperatives Development, MAWF (National Cooperative Policy (1992), Registrar of the Cooperatives, MAWF (2006). The Division of Cooperatives Development also is responsible for the Cooperative College which offers a wide range of training courses to cooperative members. The Namibian Cooperative College is different from other colleges in the sense that it is not an institution, but a set of training courses offered to cooperative members (Registrar of the Cooperatives, MAWF, 2006). Since the promulgation of the Cooperatives Act of 1996, the first agricultural cooperatives were registered in 1997 apart from the Agra cooperative and Hardap cooperative which were registered under the South Africa Ordinance (Ordinance 15 of 1946).

According to the 2006 Annual Report of the Registrar of Cooperatives, MAWF, there were 118 registered cooperatives in Namibia which were at different stages. Hence, the Division of cooperatives de-registered those cooperatives that are not recording any growth in order to revive their economic activities and to give benefits to their members. It is against this background that 36% were listed for de-registration. Of the remaining 64% active registered cooperatives, only three are fully registered agricultural cooperatives, namely: Agra, Hardap and Omusati Regional Farmer’s Cooperatives. Seventy two are provisionally registered which means that these cooperatives had operated for five years and had renewed their activities as decided by their annual general meeting (AGM). The provisionally registered cooperatives consist of seven workers’ cooperatives, sixty two service cooperatives which include savings and credit cooperatives (Registrar of the Cooperatives MAWF, 2006). Most of the provisionally registered cooperative are multipurpose cooperatives and operate in rural areas which clearly show the importance of agricultural cooperatives in rural development. In order for a cooperative to be registered fully, it is expected to submit a viable bankable business plan.

Major challenges facing cooperatives in Namibia

In Namibia, a number of cooperatives are, however, still facing certain constraints in their development such as: (1) poor understanding of the cooperative concept and principles among members and the general public, (2) the slow rate at which economic activities are incorporated into the operations of cooperatives, (3) high dependency on external support, in kind or financial, (4) lack of secured markets for the members’ products and (5) management manifests itself in founder member syndrome, with founders being unwilling to relinquish their positions in cooperative leadership (Agra, 2004) and (6) lack of access to credit facilities. As earlier indicated, one of the major constraints cooperatives face in Namibia in implementing their activities is lack of credit. Although, micro finance provides banking facilities, the biggest constraint for cooperatives in the saving and credit operations is lack of Management Information Systems (MIS) which could provide financial information for planning, controlling and decision-making purposes. The saving and credit associations are supported by Rural People’s Institute for Social Empowerment (RISE) (Registrar of the Cooperatives MAWF, 2006).

Furthermore, financial institutions require conventional collateral in order to grant credit. Currently, two loan guarantee funds (Agribank Loan Guarantee Fund and Bank Windhoek Loan Guarantee fund) have been established, in order to ensure that members of cooperatives are not excluded from access to credit on the grounds of lack of collateral. The Agribank Loan Guarantee Fund caters for agricultural cooperatives. To qualify for this fund farmers should submit a feasible business plan and the loan guarantee needs approval from the Division of Cooperative Development signed by the permanent secretary of MAWF. Some of the cooperatives that benefited through the Agribank Loan Guarantee fund, find it difficult to repay the loan. The Bank Windhoek Loan Guaranteed Fund guarantees loans to non-agricultural cooperatives, evaluated like any other client of the Bank (Registrar of the Cooperatives MAWF, 2006).

DISCUSSION

The major challenges facing farmers in rural areas of Namibia include new technologies, new crop varieties, and procurement of production inputs, marketing of agricultural output and new industries. Perishability of agricultural products and poor infrastructure create special challenges for small scale farmers in Namibia. All these and other constraints call for cooperation among farmers. The Namibian National Cooperative Policy (1992) and the Cooperative Act (1996) recognise the international principles of cooperatives. The question to be addressed is under which conditions would farmers benefit from collective action and form a cooperative. The application of NIE concepts (transaction costs, incomplete contracts (property rights) and principal-agent) to cooperatives has focused on describing problems inherent in the cooperative organisational form of enterprise. Free rider, horizon, portfolio, control, and influence cost as inherent problems in a traditional cooperative raise the question as to whether cooperatives can survive in, or adapt to a rapidly changing economic and political environment.

However, cooperatives often failed in Namibia because of holding management accountable to the members (that is moral hazard), leading to inappropriate political activities, financial irregularities, lack of management experience and knowledge (poor management), lack of capital resources, disloyalty of members because of ignorance, lack of training, conflict among members, operations never having started after registration of cooperatives, the slow rate at which economic activities are incorporated in cooperatives' operations and lack of secured markets for the members' products. Restructuring is an answer to changing market conditions, requiring the cooperative to invest (more) in research and development, marketing and (international) growth. The poor-performing cooperatives opt to liquidate or merge with other cooperatives, while high performing cooperatives restructure as IOFs. Asset fixity and the holdup problem underlie arguments that cooperatives are necessary to provide farmers with market power and to guarantee their access to markets.

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