CELEBRATING CENTENARY

Co-operative movement: A vehicle for poverty alleviation

NURUL ISLAM

"IN co-operation man is the beginning and man is the end." This is in striking contrast to capitalism, where money is the beginning and the end, and man is but a means. The objectives of a company and a co-operative society are different. The co-operator, however, expects to derive from his co-operative not only monetary advantages but a complex satisfaction which is partly qualitative. The co-operation humanises business and through it a sector of the economy. This is its legitimate source of pride. Moreover, it is just not an economic enterprise, it is also a people's movement. That is why co-operative activities are internationally known as the Co-operative Movement.

Since its inception in the mind 19th century at Rochdale in England, the ideals of the Co-operative Movement have taken root all over the world, and today co-operation exists in one form or another practically in every country. The first co-operative society was established on 15th August 1844 by 28 poor weavers of Rochdale with a small capital of 28 pound sterling, each contributing one pound to combat the onslaught of the power loom on the weavers of the hand loom fabric from the beginning of the industrial revolution in Europe. The society was named "The Rochdale Equitable, pioneers Society." Incidentally, according to a bulletin of the Rochdale Society, 1840s have gone down in history as the "Hungry Forties" when hundreds of people in England were certainly hungry. Strangely, that was the hey days of the vast British Empire when the British rulers and capitalists were exploiting the whole world.

Nevertheless, in a few years time the Rochdale Society phenomenally increased both its members and fund enabling it to provide social and economic security to its members. The success of the society stirred the lower strata of people in England, Germany, France, Belgium and other European countries and soon co-operative movement gained momentum internationally.

Here in the Indian sub-continent the industrial revolution in Europe in the 19th Century adversely affected the age-old hand-loom industry of our millions of craftsmen, who were rendered unemployed facing hunger, even famine in some parts of the continent by the end of the 19th century.

With the ruthless destruction of our world famous Muslin woven fabric industry by the British, even to the extent of chopping off the thumbs of the weavers, Dhaka, then one of the most prosperous cities in the world, with a population of over 200,000 was decimated to a poverty-stricken township of only 2,000 people. The booming cottage industry gave way to the mechanised British cotton industry in Manchester. As a result, the growing crisis pushed these poor to the countryside to find employment in agriculture. The then Governor General of India Lord Bentinck in the annual report of 1835 to the British Government remarked, "Today, the bones of the cotton weavers are bleaching the plains of India."

The marginal peasants also being oppressed by indigo planters and the money lenders were on the verge of revolting in some parts of British India, which alarmed the rulers. The land was too scanty for a vast population of some four hundred million, crammed in an overpopulated country. To contain the threat of an imminent peasant revolt the rulers took some initial steps by enacting necessary laws viz, Agricultural Credit Act of 1883, Land Development Credit Act of 1884, but they found it practically inadequate to solve the growing crisis. To tackle the situation the Madras government sent Frederic Nicholson, a senior civil servant, to Germany to study the management of co-operatives there. On his return, Nicholson submitted a report in 1895 suggesting formation of German Raiffesan type of village development co-operative societies, where peasants would be members of the societies with equal voting right. On the basis of the Nicholson Report, "Co-operative Credit Societies Act" was passed in 1904 and the very first co-operative societies were formed in some parts of the sub-continent as early as 1905. Incidentally, the Sylhet Co-operative Town Bank was set up on 14th February 1905, which was one of the very first co-operative societies in this part of the sub-continent. It has now 314 members with assets over Tk 5 crore.

The co-operative movement began to grow in the 19th century at a time when there was very little state or public enterprises and co-operatives were started solely as an alternative to private business or capitalism. The pioneers of the movement spoke of and planned for the day when the co-operative system of business would gradually win over so many followers, it would be in a dominant position and would then exert its influence in all fields and finally build a Co-operative Commonwealth.

Although the concept of a Co-operative Commonwealth has not been materialised as yet, the formation of the International Co-operative Alliance (ICA) in London in 1895 was a major step forward towards that goal. It emerged as the universal representative of co-operative organizations of all types, with a view to propagating co-operative principles in all countries of the world. The ICA enjoys the right of participation in meetings and work of the United Nations such as ILO, FAO and UNESCO and holds consultative status of category I in the UN Economic and Social Council.

According to a recent ICA bulletin the member organisations comprise nearly a million societies with a total membership of some 400 million. The largest proportion of membership is in consumer societies (38%), followed by thrift and credit societies (34%), agriculture (19%) and then housing, artisanal and fisheries societies. It may be mentioned that Rochdale Society today have over 45,000 members and an annual sales of over 7 million pound sterling.

In Bangladesh the number of various types of co-operative societies is reported to be 1,52,998 with a membership of 76,54,557 as of June, 1998. (according to a quarterly publication of the Co-operative Development, December 2003).

The importance of the co-operatives, as a vehicle of national development, has amply been recognised by our country by incorporating co-operatives in the Constitution of Bangladesh, under Section 13, which have it that: The people shall own or control the instruments and means of production and distribution, and the ownership shall assume the following forms: (a) State ownership, (b) Co-operative ownership, (c) Private ownership.

However, it is indeed very frustrating that while the co-operative sector was given priority over the private sector today, in fact, the private sector is getting priority over the co-operative sector, even the government sector, as more and more state owned enterprises are being privatised indiscriminately. Even the assorted and isolated Non-Government Organisations (NGO) are getting priority and preferential treatment by the government over the co-operative sector.

Further, it may be noteworthy to mention about the dismay of the British Chancellor of Exchequer Gordon Brown, popularly known as a compassionate politician towards the wellbeing of the poor in the world. Mr Brown said, "We are 150 years off our targets in tackling world poverty. He warned that global targets for reducing poverty by 2015 might not be met for the next 159 years, as he urged world leaders at a conference in London in December, 2004, to double aid to the poorest countries. He added, "If we let things slip, the millennium goals will become just another dream we once had, and we will indeed be sitting back on our sofas and watching on over TVs and, I am afraid, watching people die on our screens for the rest of our lives. We will be the generation that betrayed its own people."

Perhaps it may be relevant to say that the philosophy of the co-operative movement is that co-operatives constitute a distinct economic sector in its own right, essentially different from both capitalism and socialism, but with some features of one and certain features of the other. The adherents of this sector also believe that in the mixed economy they see co-operatives as co-existing with both private business and public enterprise and all three complementing one another could pretty well form the national economy, particularly towards the long cherished goal of poverty alleviation.

Is there any other international organisation, having the object and infrastructure to help the poor like the Co-operative Movement. Perhaps no. Then surely co-operatives are the most effective means for poverty alleviation and reducing alienation. But much depends on the attitude and political will of the government of the country concerned, as the government can help or impede sound co-operative development. Proper role of the government in the promotion and development of the co-operatives is obviously the most important. With the collapse of communism, capitalism has violently raised its ugly head to subjugate the poor and the weak of the world. The only alternative between the two extremes for the survival of the poor is the Co-operative Movement.

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The big blowout

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ON March 19, US Deputy Secretary of State Robert Zoellick and European Union Trade Commissioner Peter Mandelson had a heated one-hour telephone call. The subject: the trade dispute pitting Boeing against Airbus. Afterward both sides accused one another of bad faith. Within days tempers had cooled, but it was still clear that this is becoming the nastiest trans-Atlantic trade dispute in years, one that could jar not only the global trading system, but political cooperation among the major industrial nations as well.

The spat has outgrown the World Trade Organization, which did not yet exist when the United States and EU first addressed the charges of unfair trade practices in the aerospace industry back in 1992. Since then, both Airbus and Boeing have outsourced work to Asia and Latin America, transforming themselves into international, rather than continental, manufacturing networks. This case is now global, rather than trans-Atlantic, raising the stakes. When Airbus surpassed Boeing in global sales and market share two years ago, it became Europe's most important "national champion," and has been cited as a model for other state-sponsored champions from biotech to energy. Though American leaders don't speak of government-backed "champions," they are no less firmly behind Boeing. That's why this dispute requires an extraordinary solution, one outside the normal bounds of the WTO.

Before I outline my proposal, let me lay out the forces that make extraordinary measures necessary. The 1992 agreement was deeply flawed; rather than eliminating subsidies, it attempted to define which subsidies are permissible, and the debate over what this means has been escalating ever since. According to US estimates (also hotly disputed), Airbus has used $15 billion in subsidies to build its global aircraft market share from 30 percent to near 60 percent. Washington's case is that Airbus has long since outgrown an infant industry's need for aid.

Brussels counters that Boeing is subsidized, too, only in different ways, by government defense contracts and research grants, as well as $3 billion in tax breaks from Washington state. The EU also identifies subsidies of more than $1 billion received by Boeing's Japanese subcontractors -- Mitsubishi, Kawasaki and Fuji Heavy Industries. (Yet Airbus is moving the same way; it recently cut a deal with state-owned China Aviation Industry Corp.)

In the heat of the presidential campaign last October, the Bush administration filed a WTO suit calling for an end to Airbus subsidies. The EU countersued, saying Boeing, too, had received illegal government support. In January, on the eve of George W. Bush's trip to Europe, where he hoped to mend the trans-Atlantic Iraq rift, the two sides agreed to try to settle the case amicably, outside the WTO, by April 11. The period of calm was brief. The next day Airbus CEO Noel Forgeard trumpeted his plan to apply for subsidies for new planes. Within a week, French President Jacques Chirac, unveiling a new Airbus plane in Toulouse, hailed the giant's success as a model "in other fields, in energy, in transport and medicine," implying that the subsidized company represented the future of European industrial policy.

The dynamics of the Airbus-Boeing competition make an "out of court" settlement unlikely. High-tech manufacturing teaches critical skills, provides jobs and produces valuable research and profitable exports, making both Washington and Brussels reluctant to weaken support for the aerospace giants. Boeing is already in precarious shape, racked by scandals related to ethics and hiring Pentagon insiders. Worse, Airbus has announced its intention to make refueling tankers and passenger aircraft in the United States, challenging Boeing on its home turf. Fact is, Boeing's survival may depend on the elimination of subsidies to Airbus -- and perhaps even more help from Uncle Sam.

For its part, Europe is obsessed with building a culture of greater innovation, and to many European leaders, Airbus is Exhibit A of how to fashion a successful industrial policy to do so. In fact, given the glacial pace of reform in the EU, it may be the only major exhibit. And while Airbus is faring well now, EU officials are also concerned that a strengthening euro will undercut overseas sales. It's no wonder that they have tied cuts in their subsidies to reductions in US subsidies -- a quid pro quo that the EU probably believes Washington cannot deliver. The two companies are also competing for critical markets in Asia, particularly China and Japan.

No question, this conflict is the fiercest, biggest and most politically charged commercial dispute in the world. And so it is no surprise that Zoellick and Mandelson came to verbal blows. Of course, there is still a slight chance that a bilateral agreement will be reached, if not by April 11 then in the following weeks. But it is also possible that those talks will break down and the WTO will be forced to take the case.

Alas, the trade organization is not equipped to handle so large a dispute between its leading powers. Odds are the WTO would find both parties guilty of illegal subsidies and would levy sanctions on both. Washington and Brussels would likely ignore the verdict, badly damaging the credibility of the WTO. That would disrupt the Doha Round of global trade talks, and could undermine US-EU efforts to work together on issues from Iraq to foreign aid.

There is a way out. The two parties could agree to binding arbitration by a distinguished third party from Asia or Latin America, and a new framework for the talks. First, the 1992 bilateral agreement would become a global one, including Japan and China. Outsourcing has become big business; the new accord should recognize that reality. Second, the goal should be the gradual elimination of all non-defense subsidies, because Boeing and Airbus no longer need taxpayer support. Third, the new deal should contain provisions for calculating the size and impact of subsidies, using independent audits and international accounting standards. That would bring the agreement in line with post-Enron principles of good governance.

Will any of this happen? Probably not, for the parties are dug in to their trenches. But watch the next rounds: how Washington and Brussels handle this case in the next few weeks will speak volumes about the capacity of the United States and Europe to handle their toughest problems in a cooperative way.

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Banking reform: Compliance with best practice

DR JAMALUDDIN AHMED

BANKING in Bangladesh builds basic bloc of financial sector and its dominant position in mobilising savings also gives them the lead in allocating credit. But this centrality has made banks a magnet of government control that, unfortunately, resulted in hampering growth. The reason for this is government's priority, for the last 34, years has always been towards the lower productivity sectors compared to that of higher productive sectors in Bangladesh. It is argued that, removal of barriers to private entry into banking and to commercial functioning of the financial markets has been close to revolutionary. It is further argued that the effects of banking liberalisation may eventually have greater impact on the Bangladesh economy than the privatisation of power, water or telecommunication because of the reach of banking system into so many of the different aspects of the country's commercial life. Development economists argue that governments pursue reform following facing of crisis. The political economic literature identified crisis as the instigator of reform, which was reinforced by the recent work of Ranis Mahmood (1992). According to Krueger (1993) economic reforms are undertaken when economic conditions deteriorate sufficiently so there emerges a political imperative for better economic performance.

For more than a century, economists have debated the role, financial structure, the advantage and disadvantage of bank based financial system relative to market based system. German economists argue that the German bank based financial system had helped Germany overtake the United Kingdom as an industrial power. During the 20th century, the debate expanded to the United States and Japan (Vogel 1994; Porter 1993). Recent debates concentrating on financial system were: Should policy makers concerned with promoting growth and poverty reduction, focus on developing banks or developing stock markets or depend on state financing? Some argue that banks have an advantage over the market when complementary institutions are weak (Gerschenkron 1962). Even countries with weak legal and accounting systems and poor contract enforcement, face pressure from powerful banks who can force firms to reveal information and pay their debts, thus facilitating industrial expansion (Rajan and Zingales 1999). Scholars further argued that well functioning banks spur technological innovation by identifying and funding those entrepreneurs with the best chances of successfully developing new products and implementing innovative production processes (Hicks 1969; Bagehot 1873; Schumpeter 1934).

Preparing for reform: The steps that guide bank and enterprise restructuring efforts are: (a) Determining the size of losses--the stocks and flows; (b) Choosing a centralised or decentralised debt restructuring solution; (c) Reducing flow losses resulting from continued exposure to loss-making enterprises and thereby improve intermediation; (d) Determining whether the write-off of enterprise debts will be done by banks or by the state; (e) Determining whether to restructure banks before privatisation and restructuring of enterprises; and (f) Determining the appropriate role of banks in enterprise restructuring. While the process of bank restructuring will vary from country to country depending on initial conditions and financial structure, several principles and objectives should guide the design of bank restructuring programmes:

First: The financial condition of the banks need to be improved so that they can efficiently intermediate funds. Bank losses often reveal themselves in large spreads, leading to both negative real deposit rates and high real lending rates. Banks should be "cleaned" so that spreads narrow to revive saving and investment. The cleaning-up process would facilitate the privatisation of banks, including meeting minimum capital adequacy requirements.

Second: Since bank losses generally stem from lending to loss-making enterprises, the debt burden of enterprises must be relieved to improve their recovery and income generation capacity and facilitate privatisation of state holdings and general economic restructuring. Related to the problem of bank restructuring is the issue of "pass through" -- how debt relief for the banks can be passed through to the enterprises to facilitate their restructuring and recovery. Restructuring also must reduce the backlog of enterprises in liquidation or bankruptcy, since these tie up scarce economic resources.

Third: The burden of past losses of state enterprises and banks should be shared by the state, non-state bank shareholders, borrowers, and depositors. The rationale for using state funds to relieve banks of their stock of non-performing loans is to improve the allocation of scarce resources. The higher the level of state assistance, the greater the burden of losses that is shifted to taxpayers, instead of to future borrowers or depositors or even current shareholders. The "carving out" of bad debt through swaps of bad debts for long-term bonds spreads the costs over several years.

Fourth: It must be determined how the losses can be absorbed by the budget without threatening fiscal discipline and macroeconomic stability. In many post-centrally planned economies it is unclear how the state can finance such losses given these countries' tenuous fiscal situation. This is further complicated by the governments' heavy reliance on tax revenues from state-owned banks.

Fifth: The choice of restructuring options may depend not only on the fiscal cost, but also on time and administrative costs. For example, pushing numerous failed debtors into bankruptcy proceedings without established court procedures resulting in trained personnel creating bottlenecks that allow asset values to deteriorate as banks await court decision. Thus solutions should foster competition and transparency and avoid overly bureaucratic measures.

Finally, bank restructuring must address incentives in such a way as to prevent excessive debt leveraging, avoid weakening credit discipline, allow market forces to operate on a level playing field, and improve competition, resource allocation, and risk management. Any scheme that preserves monopolies or oligopolies (state or private) will only perpetuate existing distortions and increase future costs of resolution. The restructuring scheme should improve incentives that reward competition and efficiency and punish agent behaviour that raises social costs.

Sequencing of reform: Market-based solution and government intervention are the two broad mechanisms that have been suggested by the experts (Sheng, 1996). The market base solution comprises: shareholder capital injection, sale or merger, privatisation and liquidation without deposit compensation while government intervention includes nationalisation, liquidation with deposit insurance, asset recovery trust, bank hospitals, supply side solutions and forced conversion into bonds. Bank restructuring cannot be undertaken independent of the real sector. The debate remains open on whether the state should first deal with enterprise-borrower problem or the banking problem. Special audits need be conducted and Terms of Reference for special audits of banks should include: (a) Accounting diagnosis; (b) Institutional diagnosis.

Distribution of responsibility: First identify the ingredients of banking reforms such as macroeconomic environment, link to markets, recapitalisation, enabling environment, political commitment, stakeholder incentives, technical assistance and training, sequencing of reforms, governance and management, and privatisation. Second, define the role of the government and the banks.

Models of bank restructuring: The techniques of a reform process depends on its application varying across countries depending on individual conditions. Sheng suggested the process of bank reform may be distilled into four main phases some of which may be overlapping: (i) Diagnosis; (ii) Damage control; (iii) Loss allocation; and (iv) Re-building profitability and Creating incentives. Models of bank reforms are: UK: Life boat fund (1974); USA: Deposit Insurance (until-1989) and Resolution Trust Corporation (after 1989); Spanish: Bank hospital and Crave out mechanism; and Chile: Variation

Comparison the matrix with Bangladesh's: Nigel et al (1998) prepared nine parameters of reform by setting them on scale of 4 reform matrixes where 1 indicate very little, 2 to some extent, 3 fairly good and 4 showing best performance in reform process. These were compared with the reform process of Bangladesh. Results of comparison on each criterion are: Large scale privatisation (2); Small scale privatisation (4); Enterprise restructuring (1); Price liberalisation (3) Trade and foreign exchange system (3); Competition policy (4); Banking reform (2); Capital markets (2) and Legal reform index, rules on pledge, bankruptcy and company law (2). Policy decision on privatisation can be done with a stroke of pen yet changing the fundamental governance, developing market supporting institutions such as legal and financial system takes years, even decades, because it involves such a fundamental change in skills, organisation and attitudes. Complexity have not always been the only reason for delay of reform, politics impedes the process, as often happened in reforming social programme.

Reformist leader: In search of a manual reformist politician, Williamson (1994), suggested interesting idea of gathering a group of high-ranking technocrats to talk about their experiences with the hope that from some common lessons, emerges a list of hypotheses drawn from the literature about what makes reform feasible and successful and which were asked to examine from their own individual perspective. These are: (a) Policy reforms emerge in response to crisis; (b) Strong external support is an important condition for successful reform; (c) Authoritarian regimes are best at carrying out reforms; (d) Policy reform is a right wing programme; (e) Reformers enjoy "honeymoon period" of support before opposition builds up; (f) Reforms are difficult to sustain unless the government has a solid base of legislative support; (g) A government may compensate for the lack of a strong base support if opposition is weak and fragmented; (h) Social consensus is a powerful factor impelling reform; (i) Visionary leadership is important; (j) A coherent and united economic team is important; (k) Successful reform requires a comprehensive programme capable of rapid implementation; (l) Successful reforms economists are in position of political responsibility; (m) Reformers should mask their intention from the general public; (n) Reformers should make good use of media; (o) Reform becomes easier if the losers are compensated; and (p) accelerating the emergence of winners can enhance sustainability. By contrast, Bangladesh lacks a visionary leader, economists have no political commitment with the exception of a few and politicians are often corrupt, undereducated or not educated.

Reform calls for joint identification of programme goals, consensus within the government leadership, upfront actions to demonstrate intellectual conviction and broad outreach regarding reform goals within the body politic. Experiences over the past decade show that countries embrace reform when three conditions prevail: (a) a political party changes and the party in power develops a new programme or, the party in power may change its stance on the reforms when the country finds itself in serious crisis; (b) either the bureaucracy through which a ruling party implements its programme changes when the political party changes, or it is persuaded to accept new policies; and citizens change their perception of reform.

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