

ECONOMIC AND TECHNICAL FEASIBILITY STUDY OF COOPERATIVES AND CREDIT IN LAOS*

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The Role of Cooperatives in Social and Economic Development

IN MANY DEVELOPING COUNTRIES OF THE WORLD TODAY, cooperatives offer tremendous possibilities for enhancing the economic status and well-being of the people and for strengthening democracy. Through the various types of cooperatives, the people may find practical means

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The period of the author's assignment was rather short to enable him to make a thorough or comprehensive study of cooperatives and credit in Laos. This was aggravated by language difficulties or by the problem of communication. However, in this brief period, the author was able to gain some insights into the nature and magnitude of the problems which had to be faced and the necessary approaches to these problems that were to be taken, based on basic information. It is hoped that the author's experience in cooperatives partially offset the time limitation and language deficiency.

of meeting their needs for essential commodities and services for production and consumption activities, as well as for the enjoyment of the social amenities of life.

In fact, cooperatives may provide the instrument by which almost any kind of socio-economic need can be met. Thus, consumer cooperatives provide the members with household goods and other items of consumption; credit cooperatives, funds needed for production and marketing operations; cooperative credit unions, a means for encouraging savings and a source of credit for meeting personal and providential expenses of members; marketing cooperatives, better prices through processing, storing, grading, and selling produce efficiently and relatively free from exploitation by unscrupulous middlemen; supply cooperatives, agricultural supplies and tools needed for farm production, such as improved seeds, insecticides, fertilizers, feed, veterinary supplies, and others, at reasonable prices; service cooperatives, essential services for the members, such as electricity, insurance, housing, health and medical care, transportation, machinery pool, irrigation, and the like; industrial cooperatives, raw materials used to produce better quality goods as well as the means of marketing the products of cottage or home industries; cooperative farms, the pool of limited resources of small, un-economic holdings in order to achieve the advantages of large-scale farming and to bring new lands under cultivation.

All these types of cooperatives provide opportunities for small individual producers and consumers to jointly obtain commodities and services otherwise not available to them as individuals but available to larger producers or consumers. The former are, therefore, placed in a position to enjoy the benefits of large-scale operations in purchases, sales and service.

It is well to point out here that cooperatives possess certain well-defined characteristics not found in other types of business organization. A cooperative society is a voluntary organization legally constituted under existing laws of the country to carry out certain economic functions and services for the mutual benefit of the people who own and control it on a democratic basis and in accordance with established principles and techniques. It emerges out of felt needs. Its services are, therefore, designed to meet the actual needs of its members. As implied above, its membership is open and voluntary. It is founded on mutual interest in removing a particular economic disadvantage or achieving a desirable objective, rather than on the basis of race, religion, nationality, political affiliation and other considerations not related to its objectives. Other important practices of cooperatives are: the democratic control of the affairs of the society by the members themselves, on the basis of one-man, one-vote and not in proportion to the amount of capital a member has invested in the cooperative; limited returns on capital; patronage refunds, whereby members benefit from the activity

of the cooperative in proportion to the volume of business they transact with it; trading on cash basis and at prevailing market prices; and continuous cooperative education. Cooperatives afford the common people an excellent means to participate in management and in business decisions affecting their interests as individual producers or consumers. Furthermore, full ownership of the instruments of production and distribution eventually accumulates in the hands of those who use these instruments.

In addition to their usefulness as a tool for economic development, cooperatives can also be employed as a counter-insurgency measure. By their very nature and their primary objectives, they have a special appeal to the masses. Perhaps, no form of organization other than the cooperative cuts across all levels and practically all kinds of economic activity in which the mass of the population are involved or are deeply concerned. Thus, in some countries like the Philippines, cooperatives have been used to regain people's confidence in their government at such crucial times when democracy is being threatened by communistic infiltrations.

While stressing the significant potential contribution of cooperatives to the social and economic advancement of developing nations, we must not think of cooperatives as a wonderful panacea to all possible problems. We must not neglect to explore other forms of organization which can also be used in pursuit of similar objectives we have set for cooperatives to achieve. Nor must we assume that cooperatives are necessarily always superior to other institutional arrangements in all places or for any specific purpose. We must bear in mind that cooperatives have also their own limitations and may not be the desirable program to pursue under certain conditions and circumstances. We should not let ourselves be carried away by our enthusiasm and our emotions to recommend cooperatives as the only means by which the economic and social ills of a nation may be remedied.

In some developing countries, many officials (and sometimes their foreign advisors, too) — recognizing the potentialities of cooperatives in promoting "better farming, better business and better living," to quote the late Sir Horace Plunkett—often imbued with missionary zeal and a flare for dramatics, have embarked upon ambitious programs of cooperative development. Thus cooperatives mushroom overnight without the preliminary establishment of solid foundations of cooperative business through intensive cooperative education and training. Sometimes, the people themselves, contribute to the feverish expansion of cooperatives on unsound lines. They organize themselves into cooperatives, not because they feel that there is an economic need for it, but because they merely want to take advantage of tax exemptions and other benefits and privileges granted cooperatives by the government. Consequently, these activities have often been very wasteful of financial and human resources. The failure of many cooperatives,

organized without any strong foundation, have caused disillusionment among the people and have tended to set back the cooperative movement for a good number of years. Obviously, such a situation seriously impairs the future development of cooperatives on a sounder basis.

Development of Cooperatives and Credit in Laos

As in other underdeveloped areas where the United States government has been extending financial and technical assistance, the development of a cooperative program in Laos is in line with the general policy of American foreign aid programs. It has, for instance, placed greater emphasis on the development of democratic institutions like the cooperatives.

Section 601 of the Congressional Act of 1961 providing for International Development, underscores "the policy of the United States to encourage the development and use of cooperatives, credit unions and savings and loan associations" This provision is, of course, binding on the U.S. Agency for International Development.

On June 23, 1961, the Director of the International Cooperation Administration announced that "greater emphasis on development of and assistance to cooperatives in underdeveloped countries will be among the major objectives of the administration's new foreign aid program." Before the end of the year (on December 13), the Acting Director of AID/Washington stated in AIDTO Circular A-52:

In general, AID is in agreement with the importance of and suggestions for associations as one of the means of implementing technical and financial assistance to developing nations. It will be the policy of AID to use these organizations and the development of them to the fullest extent possible within policy and program balance.

In the light of these policy pronouncements, USAID/Laos has received numerous requests for assistance in establishing and developing agricultural and consumers cooperatives. The Mission believes that cooperatives can be used as a counter-insurgency measure and as an instrument of economic development for Laos. Officials of the Royal Lao Government have expressed their interest and support for a program of cooperatives and credit for Laos, and have requested assistance and guidance.

In June 1962, the U.S. Military Assistance Group (MAAG) White Star initiated the establishment of consumer purchasing and rice milling facilities in Ban Kok Mai and Ban Houei Khong. Similar facilities were put up in Ville de Paksong and Ban Nong Lom the following October. Material support given by MAAG to these stores consisted of a rice mill, the construction of a warehouse and a consumer store, capital equipment grants, and consumer merchandise provision.

The USAID has continued to subsidize these facilities and the program has recently been expanded to include additional funding and supervising personnel support. Mr. John N. Doolittle, a hotel administration graduate from Cornell University and IVS Business Manager, was assigned to set up a system of bookkeeping and accounting for these stores. He has been teaching bookkeeping to some local personnel. At the time this study was being undertaken (August 1964) Mr. Doolittle was due to leave on October 25 for further studies. The USAID Regional Office/Paksé did not then have a replacement who could continue the work of managing these stores which he so painstakingly started.

About the last week of September, a trusted TON employee of USAID in the Paksé Regional Office disappeared with 2,000,000 kips of the accumulated collection of the four stores, presumably USAID funds contributed to the stores.

An analysis of the structure of these organizations disclosed that they are not, in fact, cooperatives, although the stores are referred to as co-ops. The total capital was provided by the USAID, including salaries and wages paid to hired employees of the four stores. There was no participation by the "members" in the management of the organizations—management and control being performed by USAID. Goods were sold at subsidized rates. Essentially, therefore, these stores were run just like any small commissary store, with membership extended to those persons who render one day's work a month to any of the stores' projects which were not in anyway related to cooperative business.

It should be strongly emphasized here that the term "cooperative" is not a magic word. Just because the association is called a cooperative does not make it a cooperative. The injudicious use of the term "cooperative" to refer to organizations such as the White Star stores which are not operated in accordance with established cooperative principles, tends to create a wrong impression of cooperatives. This may impair the future development of cooperatives on a sounder basis. The services of a cooperative society must not only meet the felt needs of members but the members themselves must realize that the services meet their needs and they are given the opportunity to participate in its management and to support its capital structure on a sound basis.

Despite these criticisms against the misuse of the word "cooperatives" we can commend the people behind the establishment of these organizations. These organizations are serving a useful purpose in their own sphere. They provide the members with essential consumer goods at prices lower than those prevailing in other local stores. They have served as a vehicle for the establishment of good rapport between the Mission and the local villagers. With some adjustments in their organizational structure, they can be trans-

formed into economic cooperatives and can be used to attain both the short-run objective of counter insurgency and the long-run objective of economic development of Laos.

There have been other attempts to organize cooperatives in various parts of Laos. In Luang Prabang, a state-subsidized organization selling consumer goods, known as "economat," operated for a while. But it was closed when it lost its manager at the time the government withdrew its subsidy and passed the management of the organization to the Lao War Veterans Association. With the transfer of administration of these organizations to the Veterans Association, they came to be known as "Cooperatives des Anciens Combattants". Like its predecessor, "economats", these organizations were not strictly speaking, cooperatives. They were nothing more than government-subsidized stores selling basic consumer goods to war veterans, military personnel, and government employees. Merchandise was bought by these "economats" with government - import - monopoly - rights and sold to the buyers at fairly reasonable prices.

By December, 1963, an encouraging development took place when the "Cooperative Agricole des Fonctionnaires" was established in Vientiane. This organization replaced the "economat" and was supposed to engage in both production and consumption services for the members. On the production side, the members were to cultivate lands to be given them by the government. The organization was to import agricultural tools and implements which were to be loaned or rented to members at reasonable prices. It was to undertake the marketing of the members' agricultural produce. Since most of the members were civil servants in active service, it was doubtful whether they would have the time to farm their lands. So far, the production aspect of the organization has been dormant.

On the consumption side, the organization assumed the functions of the "economat". It continued the program of importation formerly undertaken by its predecessor with foreign exchange provided by USAID, upon the request of the Minister of Finance. For the time being, the store dealt only with imported goods such as rice, milk, fish sauce, sugar and salt. The "Syndicat des Fonctionnaires," which had been instrumental in initiating the organization of this cooperative, conceived the idea as a means of helping the government employees to fight rising cost of living by enabling members to buy goods at lower prices. (It is estimated that real income of civil servants had declined by more than 50 per cent during the preceding two years). Membership in the cooperative was opened to all civil servants — either active or retired—who were also members of the "Syndicat des Fonctionnaires." At the time this study was made, there were about 3,000 members.

The "Cooperative Agricole des Fonctionnaires" had the makings of a true cooperative. It had adopted its own by-laws. The members helped provide the capital of the organization by buying shares of stocks—either the series "A" shares for agricultural production at 10,000 kips each share or the series "B" shares for consumption at 1,000 kips each share. There was no limit to the number of shares each member could hold. The members had already put in about 3,000,000 kips as capital for their cooperative when this study was undertaken. The "Credit National" was supposed to provide the initial capital of the co-op, but because of lack of loanable funds, it was not able to do so.

The members of the cooperative were also given the opportunity to participate in the management of their association. Members of an administrative council, numbering three to ten, were elected by all members of the co-op for a term of two years at a general meeting. The Council, in turn, elected the officers of the cooperative also for a two-year term. The Council was supposed to meet once a month, but because the volume of business was still very small (at the time this study was made), regular meetings were not yet held. Other related cooperative business practices followed were: prohibition of trading or cash basis sales to non-members; the allocation of 10% of net savings as reserves. The cooperative was planning to distribute "profits" to the members on the basis of their purchases, and to allocate a certain portion of the net savings to the "Syndicat des Fonctionnaires" to be used for members' education.

Off to a good start, this cooperative was faced with the problem of whether it was to continue to operate as such. There was a conflict between the Ministry of Finance and the Ministry of National Development and Plans. The former was satisfied with the co-op and desired it to continue. The latter—apparently a more powerful agency—wished to revive the "economat" type of organization on the grounds that the co-op was believed to be not functioning well, that there were delays in importations because the co-op was using old procedures, and that not all civil servants were being served by the organization since those who were not members of the "Syndicat des Fonctionnaires" were not eligible for membership and the co-op, therefore, would not sell to these non-members. Moreover, the Ministry of National Economy and Plans was thinking of paying part of the salaries of government employees in kind so that it could import the commodities directly. The Cabinet decided that all importations were to be under the control of the Ministry of National Economy and Plans.

Another cooperative worth mentioning here was the one established about one and a half years before this study was made at the Poultry, Mushroom and Pig Production Center (about 10 kilometers from Vientiane), by the Lao War Veterans Association, with the assistance of the Asia Founda-

tion and the World Veterans Federation. The cooperative was born out of a need for an organization that was to help the members market their produce in an orderly and efficient manner so that they could get better prices for their products. It had a set of officers elected annually by the members at their general assembly. Membership was based on shares of stock rather than on the membership fee system. Each share of stock was worth 200 kips and there was no limit as to the number of shares a member could buy. A certain portion of the "profits" was distributed to the members in the form of patronage rebates, and 10% of the net savings was allocated as reserves.

Initially, the veterans who had been settled on individual plots of land suitable for gardening and the raising of small livestock at the Production Center, were given pigs and chickens which they could raise and sell. From the proceeds of the sale of their produce, they were expected to repay by installment what they received from the center until the amount was fully paid for. Because of the difficulty of selling their produce on an individual basis, the veterans decided to organize a marketing cooperative.

At the start, the cooperative could not raise capital from its members. Gradually, however, it was able to build up capital out of the profits from the sale of the produce. The value of one share of stock had already been deducted from the patronage refunds of each member. In addition, it was able to set aside a certain portion of the net proceeds from marketing for buying basic consumer commodities to be sold at the store. This cooperative appeared to be on the road to success, thanks to the guidance provided by Mr. Benicio Revilla, a Filipino Agricultural Advisor of the Asian Foundation.

Thus, we have examples of the beginnings of cooperative effort in Laos. Officials of the Royal Lao Government and military officers were enthusiastic about the expansion of the cooperative movement in the country and sought the advice of USAID in this regard. Neither the Mission nor the RLG had a cooperatives expert on its staff. The USAID believed that the advisability and feasibility of cooperatives and agricultural credit in Laos should first be determined before undertaking a program of expanded technical and financial assistance for these activities in the future. Hence, an invitation was issued by the Mission for a consultant on cooperatives and credit to come to Laos and conduct the feasibility study and make recommendations as to the future activities it could undertake along these lines.

As to the agricultural credit situation in Laos, I would like to quote here excerpts from observations made by Mr. Clark Joel of the Office of Economic Affairs, USAID/Laos, as contained in his excellent paper (Office Memorandum to W.W. Thomas, dated September 16, 1964), to which I am in general agreement:

Laos has no agricultural credit system of any consequence to finance either the production or the marketing of agricultural products.

Interviews with six village chiefs in the vicinity of Vientiane, as well as reports from IVS and USAID agriculture staff, indicate that production and marketing is non-existent for practical purposes. Chinese merchants and money lenders are not established as providers of agricultural credit in Laos, as they are in other parts of Southeast Asia. Laos agriculture is largely of the traditional subsistence type and is characterized by limited use of money and of capital goods, small or non-existent surpluses over current consumption, a fairly even distribution of wealth (or more precisely, of poverty, and a certain reluctance to deal with outsiders . . .)

The government has not been able to provide agricultural credit in any significant extent. The Credit National — an RLG financial institution set up by the government to provide productive credit to industry and agriculture — has a statutory authority to make loans for agricultural pursuits, but the limitation of personnel and facilities have prevented it from becoming a significant factor in the development of the country's agriculture. Most of its loans and investments are to large scale enterprises, particularly in the industrial and public utility fields.

. . . The problem of a lack of rural credit is only one of several key factors that interfere with increased agricultural production. The implication is that the provision of rural credit will do little to increase the level of agricultural production unless this measure is coordinated with a set of other measures designed to remove the other bottlenecks that prevent or discourage the growth of agricultural output.

Favorable Factors

From the mass of information that I collected, and from my own observations of the situation in the country, the following factors or conditions seem to favor the development of successful cooperative and credit programs in Laos. I should like to point out, however, that the list is by no means exhaustive nor are the favorable factors listed in the order of their importance.

1. *USAID Policy of Giving Priority to Development of Cooperatives.* As stated earlier in this report, greater emphasis was being given to the encouragement of the cooperative approach in developing countries under the new foreign aid program of the United States. In line with this policy, USAID/Laos can be expected to provide greater support and assistance to the development of cooperatives in Laos, both as a counter-insurgency measure and a development tool, within the limits of technical and economic feasibility of these democratic organizations and overall program balance.

2. *Faith of the Royal Law Government (RLG) Officials and Lao people in the Potentialities of Cooperatives.* Officials of the Royal Lao Government, including the military, accept the fact that cooperatives can play a major role in various aspects of development of their country. They

recognize the great potentials of cooperation in supplying the people with the things needed for daily living, for agricultural production and marketing, for settling refugees and veterans, for promoting savings, and for carrying on a host of other economic activities, and they have sought, or are seeking, the assistance of USAID and other organizations to enhance the establishment and growth of cooperative institutions in Laos. In fact, even the people themselves have gone ahead on their own with the organization of some cooperatives. This is an important consideration because there is need for a congenial atmosphere for cooperatives to develop and they must be adapted to the culture, customs and value systems of the people who are to make use of them. After all, it is to be their program, not of the United States or any other country for that matter.

3. *Growing Awareness of the People to Develop.* Until recently, and for a long time, the Lao people thought there was no longer need for development. Now, they are becoming more aware of their need for advancement. There are evidences of a growing awareness of the value of education, of the importance of better care and management of crops and livestock, of the effects of opening or improvement of roads, and of increasing production in order to increase earning. They recognize that they have limited experience, therefore, they seek advice and guidance. The younger people are becoming more active in the affairs of the community and there is a willingness, on their part, to take risks in order to develop their community and their country.

4. *Cooperative Spirit among the Rural People.* Cooperation in one form or another has been practiced in the rural areas of Laos, for many years before the organized enterprise came to be known. *Ad hoc* group activities had been observed in performing certain farm operations, undertaking communal works, building houses, building wats, digging wells, and carrying out certain social activities. Farmers helped their neighbors in plowing their fields, harvesting their crops, and doing other things cooperatively. Our job is to transform this social (or *ad hoc*) cooperation into economic cooperation, using the latent cooperative spirit among the rural people as a springboard for action. It must be remembered, however, that the general propensity to work together does not necessarily imply that the rural people will also work together successfully in a cooperative business enterprise.

5. *Existence and Development of Other Programs Related or Complementary to Cooperatives and Credit.* The successful implementation of cooperatives and credit programs depends to a large extent on how well they are integrated with the overall development plans providing economic development and security. It is encouraging to note that great strides have been made by both the Lao Government and the USAID/Laos in the de-

velopment of programs that would enhance cooperatives and agricultural credit programs in Laos. Thus, we have programs designed to promote increased agricultural production, rural community development, construction and improvement of roads and bridges, education, health and sanitation, construction of school buildings and market facilities, and other projects which, in one way or another, contribute to the growth of cooperatives and credit in the country. While these projects may aid in the healthy development of cooperative and credit institutions, these organizations can also be used to support activities in both economic and social welfare programs of USAID and the Government.

6. *Increase in Production of Cash Crops.* Where a high production goes to subsistence, the incentive to establish cooperatives as a form of business is reduced. In many part of Laos, there has been a trend to produce more cash crops such as coffee, vegetable, pineapple, sugar cane, peanuts, tobacco, *et cetera*. In a few years, it can reasonably be expected that production for the market could increase and the prospects of establishing marketing and credit cooperatives would be better.

Unfavorable Factors or Conditions

Consideration of the prerequisites that should be filled for the successful implementation of strong and efficient cooperative and credit programs will be placed in proper perspective if the unfavorable conditions or obstacles are carefully examined. In Laos, many of these unfavorable factors stem from the economic backwardness of the country itself. To overcome these impediments will, therefore, require tackling the problem on a broad front. As in the case of the favorable factors enumerated in the preceding section, the obstacles or unfavorable factors to the orderly development of cooperatives and credit are listed here also not necessarily in the order of their importance or seriousness.

1. *Illiteracy, Ignorance and Lack of Experience.* The most serious impediment in the establishment of cooperatives and credit program in Laos, I believe, is the low level of literacy of the bulk of the population. The average level of educational attainment is three years of formal schooling. It is estimated that only 40% of children 6-7 years, 7% of those between 9 and 11 years, and about 1% of those who are 12 years or over are in school. There are about 3,500 to 4,000 public elementary school teachers in the entire country, 80 per cent of whom are said to be inadequately trained. Even in their own native language, a large majority of the people can hardly read and write, much less carry on the fundamentals of addition and subtraction.

Under these conditions, it would be extremely difficult to find trained personnel to manage and operate the cooperative and credit institutions.

or to have a sufficient number of literate members who can keep a check on the literate officers of cooperative societies who might exploit them. Illiteracy renders communication and the spread of knowledge difficult and costly. If the people are illiterate and ignorant, they fall an easy prey to the unscrupulous. Without trained leadership and management personnel, and with a general lack of experience among the population, it is difficult to see how cooperatives and credit organizations can flourish. Under these circumstances, cooperative development in Laos will certainly require a long period of acculturation and education, intensive training in cooperative and business principles, membership responsibilities and productive use of credit. It would not be wise to develop cooperatives and credit immediately on a large scale in Laos, under these conditions.

2. *Subsistence Economy and Lack of Motivation to Increase Production.* Agricultural production in Laos is intended more for meeting family consumption needs than for sale in the market. Only a very small proportion of total production or none at all, can be considered as marketable over and above current consumption requirements of the average farm family. In the case of rice, for example, probably less than five per cent goes to commercial channels.

The description of the existing farm conditions in Laos given in an FAO report,¹ gives a clear picture of the typical Lao subsistence farm;

A home as well as a means of earning a livelihood; a source of subsistence as well as cash income; a focus for nearly all the interest and activities of the family and not merely economic interests or activities; the means by which the security and perpetuation of the family may be assured, as well as its current needs satisfied . . . Without romanticizing the situations the complex of conditions referred to affords justification for the common description of peasant farming as a way of life and not merely as a business.

Having a considerable proportion of production going for subsistence, the Lao farmer's cash income is small and precarious and his capacity to save is very limited. This means that he, himself, can seldom provide capital to finance farm improvements, or even operational expenses, and he must thus rely on borrowed funds. Often, his borrowing would tie up his crops to the fellow who gave him the cash advance, at a price which the latter dictates. And so, if he had any surplus produce to sell, he usually gets a low price for it.

Many Lao farmers lack the motivation to increase their production. They see no advantage in producing more because of unstable conditions in the country. They are afraid that their produce would only be confiscated by the

¹ Food and Agriculture Organization of the United Nations. *Report of the Center on Agricultural Financing and Credit for Asia and the Far East, Lahore, Pakistan, 1-13 October, 1956.* Rome, Italy.

Pathet Lao or commandeered by the army at low prices. In many provinces, it was reported that the Chaokhoueng (equivalent to governor of the province) and the military monopolized rice purchases at prices set by them. Poor security has also prevented the free movement of commodities from one area to another, thereby interfering with the development of a market-oriented economy. Another factor which accounts for the lack of motivation to increase agricultural production has been the prohibition to export rice from a surplus to a deficit province, in line with a policy of the military to make each province self-sufficient in this staple. To these factors may be added the lack of market because of the generally low income levels of the mass of the population, lack of good transport and communication facilities, and lack of processing facilities. If the farmers cannot sell their produce, it is useless, they say, to increase production.

If cooperatives and credit organizations are to be developed on a sound basis, the agricultural economy of Laos has to be market-oriented rather than kitchen-oriented. Economic development requires that an increasing proportion of total production be sold in the market so that the farmers will have more cash incomes and greater savings to be used as capital for improving farm production. This would necessitate prior increases in production. Cooperatives as well as credit can be useful in bringing this about.

3. *Absence of Sound Legislation and a Government Agency.* In Laos, there is no suitable law governing the operation of cooperatives. A law was passed sometime ago but applied only to a particular "cooperative" organized in Vientiane. In the absence of a local law, the French general law covering the former French Indo-China has been followed in Laos.

It is necessary to establish first a legal framework for cooperation before attempting to organize cooperatives on a nationwide scale. If appreciable cooperative development takes place before the enactment of a suitable law to control it, there will be a lot of abuses which would be difficult to eradicate later on. The high proportion of illiterate members may be exploited by unscrupulous officers and other members and by government officials or employees.

A cooperative law should be designed to suit the requirements of cooperatives and the general legal and administrative structure, customs and level of economic development of the country. It must be of a broad, enabling nature, as simple as possible, and with a minimum of specific details. It generally lays down the conditions under which cooperatives operate and with which they must conform, as well as some minimum provisions concerning governmental authority, responsibility, or control.

There is no agency in the structure of the Royal Lao Government which is responsible for cooperative development, registration, and supervision.

Under the present stage of development of the country, it is inevitable that the government should play an active role in the cooperative movement in terms of providing encouragement, guidance, and financial as well as technical assistance to cooperatives of all types. It should be emphasized right from the very beginning that the assistance of the government should be regarded as transitional until such time as the cooperatives have gained sufficient experience, competence, and financial strength to stand on their own. The success of a government cooperative agency will be gauged by the extent to which it works itself out of certain responsibilities by transferring them to the cooperatives themselves — the objective being to increase the real self-reliance and independence of the societies. It is not desirable that the cooperatives forever continue to depend on the government. Therefore, it must be made clear, at the outset that the cooperative societies will gradually assume most of the responsibilities borne by the government, particularly the participation in capital and management, as soon as they are in a position to do so.

4. *Lack of Banking Facilities.* There are only five commercial banks in Laos, with few branch offices outside Vientiane. Successful cooperative and credit programs demand that there be an adequate banking system where people can deposit their savings, where they can borrow money on reasonable terms, where cooperatives can deposit their surplus funds and obtain accommodation from it for their banking requirements, and where they can secure additional capital for their facilities and operations. As the economy moves to the direction of being market-oriented, the need for more banking facilities will grow.

5. *Tendency to Use Cooperative Program for Political Purposes.* Because of the great prospect of cooperatives as a counter-insurgency weapon, there is the temptation for RLG and USAID officials to use the program as a political tool to attain a short-run objective. If this happens, the programs would probably be expanded faster than available trained manpower and other resources would permit. People who have no knowledge or adequate understanding of cooperative principles will be asked to implement the program, and the already overloaded USAID staff will get an additional burden to handle the program. Cooperatives with no solid foundation will be organized and government funds and foreign assistance will largely be channelled to these projects, in order to accomplish the objective of countering the inroads of communism. Such a political decision will spell the doom of cooperatives.

I should like to reiterate that if we go slow on this, that is, build first the solid foundation and a good organization base of cooperative business, through a vigorous education and training program, then we can kill two

birds with one stone: strong cooperatives to counter communism and to develop the economy of Laos.

6. *Conservative Value System.* In Lao culture, there are certain traditions and value systems which tend to resist the introduction of new ideas or techniques. Religion is believed to be one of these, in the sense that it is tradition-bound and thus resists change. A basic Buddhist teaching is said to keep the people satisfied with what they presently have and uninterested in improving their material circumstances. In other words, if my interpretation is right, the Buddhists followers are taught not to aspire for something better than what they have now. If this is true, it will be a serious deterrent to development efforts, including cooperatives and credit.

Conclusion

There are two principal areas in which cooperatives and credit program may be used to maximum advantage in Laos:

1. On a short-run basis, it can be an effective counter-insurgency measure in the current conflict with non-democratic forms of institutions.
2. On a long-run basis, it can greatly help in the total development of the Lao economy.

Provided a strong, solid foundation is laid for the program, there is no reason why the two objectives cannot be achieved, since there is no point of incompatibility between them. But certainly, it will be a slow process though responsible officials will probably desire to move ahead to accomplish the short-range objective immediately.

The economic backwardness of Laos demands that an integrated approach be followed in attempting to overcome the obstacles which result from the existing socio-economic conditions. This means that cooperatives and credit should not be considered in complete isolation of other programs designed to increase production and real incomes and promote rural betterment in general. Efficient cooperatives and credit system are useful instruments of economic and social advancement, but their contribution will be greatly limited if they are not supported by other measures within the rural sector as well as by the development of other sectors of the economy.

The present low level of economic development of Laos also implies the impracticability of employing orthodox or sophisticated Western forms of developmental measures and organization. In the environment of the Lao economy, a pragmatic approach should be adopted. Obviously, it will be futile to require application of ideas and principles accepted in more developed economies that may not work at all in the local scene. This may mean that, in the early stages at least, some modifications of established principles found workable in other countries may have to be made and that

some compromise with traditional methods and concepts may be desirable, or even necessary. In the case of Laos, it is essential that cooperatives and credit development should proceed on a pilot basis before any attempt is made to blow up the program to a nationwide scale. This would allow the evolution of ideas and methods that would suit the peculiar characteristics of the Lao economy.

The successful development and implementation of sound cooperatives and credit program will depend, to a large extent, on our ability to fill certain minimum prerequisites. As yet, many of these prerequisites are lacking or non-existent in Laos. The main concern of change agents is to overcome the obstacles and unfavorable conditions which impede the growth and development of cooperatives and credit on a sound and lasting foundation. This task will require the collaboration of the Royal Lao Government, the USAID and other organizations. Because of the social and economic conditions in highly underdeveloped Laos, the government must necessarily play a more active role by providing adequately trained leadership and personnel and the necessary technical and financial help — the objective being to assist cooperative and credit institutions to assume progressively the responsibility for finance, management, promotion, audit, education, research, and training.

Cooperatives and credit can make their greatest contribution to the economic growth and development of Laos, if they are oriented to the complex and interrelated character of agricultural and rural advancement, as well as to the level of aspirations and motivations of the village people. It is the peasantry which needs the services of cooperatives and agricultural credit institutions most; it is they who stand to reap the greatest benefits from the program. Ideally, the cooperative form of organization is best suited to the social and economic conditions in rural Laos. It provides the villagers an excellent opportunity to meet their problems through self-help and mutual help, and there is no better environment for working together to solve a common problem than the rural villages.

Cooperation is not a wonderful panacea as many are inclined to think. Like other forms of organization, it has its limitations. Its usefulness cannot be assured under all types of conditions. Nevertheless, it offers tremendous possibilities for the development of Laos. If the obstacles to building a strong foundation for a cooperative structure are overcome, there is hope to accelerate the task of nation-building in Laos. But the time is not yet ripe to expand cooperatives and credit in Laos to a scale beyond that which present resources and administrative framework would permit.

Recommendations

To meet the requirements and overcome the obstacles for the successful and orderly development of a sound cooperative and agricultural credit

program in Laos, it is recommended that serious consideration be given to the following:

1. *Development of a well planned and permanent training program for cooperative leaders, prospective trainers as well as selected government officers, and initiation of a vigorous education and information program on cooperatives and credit.* Training courses may be conducted either in the country itself or in another country with practically similar problems and conditions as those of Laos. The Agricultural Credit and Cooperative Institute at Los Baños, Laguna, Philippines is prepared to devise a special training course for Lao nationals who have enough knowledge of spoken and written English to be able to benefit from the course, since English is the medium of instruction used at the Institute. With respect to cooperative education and information, a modest beginning can be made by preparing informational materials, study guides, brochures, pamphlets and the like, as well as audio-visual materials to improve the understanding by the rural people of cooperatives and credit.

2. *Development of Sound Cooperatives Legislation.* Representations should be made to the proper Lao authorities to assure the enactment of a suitable national cooperative law as soon as possible. USAID can provide assistance in framing this legislation and in developing model by-laws for various types of cooperatives. The sample cooperatives act and the standard by-laws prepared by Dr. Remi Joseph Chiasson of St. Francis Xavier University, Nova Scotia, Canada, appended to his report to the Director, Asia Foundation/Laos, dated March-May, 1963, may be used as a guide for this purpose.

3. *Establishment of a Suitable Administrative Structure for the Promotion, Development and Supervision of Cooperatives.* There is need for a government agency that will be responsible for existing national policy and for pursuing an active program of encouraging the organization of cooperatives of all types as well as assisting them when they are established. In anticipation of the growth of the cooperative movement in Laos in the future, it is well to think seriously about setting up an agency for this purpose. I am almost tempted to recommend the organization of a separate ministry, or at least a department, of cooperatives development in order to ensure that this function will not be regarded merely as a subsidiary function, if placed under an existing department or direction. However, considering the fact that in the immediate future the volume of work will be too small for a separate department, it will be wise to entrust cooperatives to an existing agency. Because the economy of Laos is basically agricultural, most of the work on cooperatives will have to be related to agricultural development. I therefore, suggest that temporarily, at least, there should be a cooperatives development section created under the Director of Agriculture. Going one

step farther, I am inclined to recommend the establishment of a Ministry of Agriculture and Forestry to comprise agriculture, forestry, animal husbandry (presently Veterinary Services), agricultural extension, and later, cooperatives development—considering the importance of agriculture to the economy of Laos. USAID is expected to help in the establishment of an appropriate government agency for cooperative development. If this agency is established, irrespective of what the organization will be and where it is to be located, the staff should be given special training in cooperative principles and practices so that they can perform their functions more efficiently.

4. *Establishment of Pilot Projects in Selected Areas.* Both from the technical and economic standpoints, Laos is not yet ready to go into the organization of cooperatives on a large scale. It will take some time, perhaps a minimum of three to five years, before it can have the trained people to implement a sound cooperative program. This will include, among them, the education of the peasantry and the development of a market economy.

In the meantime, sufficient enthusiasm and interest have already been generated and cooperatives and pseudo-cooperatives are beginning to get organized. Before proceeding into a massive cooperatives program, it is desirable and imperative to gain basic information on the applicability of a particular type of cooperative to a given local situation. The establishment of pilot projects will be an effective means to provide such information.

On the surface, it would appear that the cluster areas developed by the Rural Development Division of USAID would be the logical place to start cooperative pilot projects. A cluster area consists of several neighboring villages. The efforts of the people themselves, are united with those of government authorities and USAID to improve the economic, social, and cultural conditions of the commodities through a variety of programs designed to achieve improvement in agriculture, education, health and sanitation, as well as community development or public works facilities. Living together in a cluster area, the people have many interests in common and have a stronger tendency to work together — a form of cooperation in a broad sense. Thus, it is argued that cooperatives for economic purposes would flourish better in a cluster area than elsewhere in the rural community.

I have no quarrel with this argument in favor of the cluster area. But from my limited information about it, I am inclined to believe that cooperative business would not thrive very well in a cluster area. This is due to the fact that a cluster area is ordinarily situated in isolated places in the province, close to the border areas occupied by Pathet Lao, far from market centers, and with little or no transportation and communication facilities. The villagers have barely sufficient products even for their own con-

sumption. Under these conditions cooperatives as a business enterprise cannot last very long.

Until the cluster areas will have been developed to such an extent that the people are able to produce more, and, until such time as market and transportation facilities will have become sufficiently available, it might be better to locate the pilot projects outside the cluster areas, such as in places lying close to the main market centers and where the people have products to sell and are oriented to a market economy. However, since I myself, did not have the opportunity to visit a cluster area I am not in a position to rule out totally the possibility of putting up a cooperative pilot project in one of the cluster areas. After all, a pilot project is a means of determining whether a particular type of cooperative is feasible under a given set of conditions.

The initiation of the following pilot projects is suggested:

1. An integrated marketing and credit cooperative system in the vicinity of Vientiane. This will include the formation and coordination of activities of two separate cooperatives in the areas: one society to sell the produce of members; the other, to provide credit in kind (seeds, farm tools and implements, feeds, agricultural chemicals, fertilizers, etc.). The peasant must be a member of both. He should be required to enter into a marketing agreement to sell all his marketable produce through the marketing co-op. The proceeds of crops and/or livestock sold should be directed towards repaying the cost of items supplied by the credit society, only the balance going to the farmer in cash.

2. A credit union among civil servants in a large government agency in Vientiane. In a credit union, the members regularly put their savings either in a fixed deposit account or in a savings deposit account. Out of these pooled savings, they borrow money for personal or providential purposes. It is desirable to have the cashier authorized to make deductions on the salaries of employees who are members of the credit union for their regular deposits or for their payment of loans on installment.

3. An industrial cooperative among needlecraft workers and others engaged in home industries in the Muong Phieng area in Sayaboury. This cooperative will handle the purchasing of supplies, raw materials and equipment needed by members, and the marketing of the members' products.