

CO-OPERATIVE FARM CREDIT FOR UNEMPLOYED GRADUATES IN IRAN:  
AN EVALUATION OF THE PROGRAM IN FARS PROVINCE<sup>1</sup>

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ABSTRACT

This research was conducted in Fars Province of Iran to evaluate co-operative farms which had been formed by young high-school and university graduates. Out of 49 farm co-operatives a sample of 16 was selected for this study in 1983. The results of the study revealed that the program faced serious problems. The majority of co-operative members has neither knowledge nor experience in farming. The number of members was more than that needed for accomplishing the available work. As a result, the operating costs were high and economic analysis of various groups of co-operatives showed that few co-operatives made a profit. Due to low income, there was a decline in co-operative members. The study concluded that cost of creating jobs for unemployed graduates in farm co-operatives was rather high. However, through reform in the process of formation and managing the co-operatives cost could be reduced to a considerable extent. The study showed that most of the problems could be resolved by taking appropriate measures and co-operatives could be run in an appropriate way to meet their objectives. Recommendations have been made to overcome major problems.

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شرکت تعاونی اعتبارات کشاورزی برای فارغ التحصیلان بیکار: ارزیابی برنامه در استان فارس

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خلاصه

بمنظور ارزیابی شرکت های تعاونی کشاورزی که زیر نظر مرکز گسترش خدمات تولیدی و عمرانی فارس و با عضویت دیپلمه ها و فارغ التحصیلان بیکار دانشگاه تشکیل شده بودند

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تحقیقی در سال ۱۳۶۲ انجام گرفت. از میان ۴۹ شرکت تعاونی نمونه‌ای مرکب از ۱۶ شرکت جهت مطالعه انتخاب شد. نتایج مطالعه نشان داد که شرکت‌ها با مسائل جدی روبرو بودند. بیشتر اعضاء شرکت‌ها دارای دانش و یا تجربه در امور کشاورزی نبوده و تعداد اعضاء به میزان قابل توجهی بیش از میزان کار موجود بود. بررسی اقتصادی شرکت‌ها نشان داد که هزینه جاری آنان زیاد بوده و تعداد اندکی از شرکت‌ها به مرحله سوددهی رسیده‌اند. در نتیجه کمی درآمد، تعداد اعضاء تعاونی‌ها کاهش یافته است. هزینه‌ایجا داشتغال برای فارغ التحصیلان بیکار از این طریق نسبتاً بالایی باشد. اما با انجام اصلاحاتی در نحوه تشکیل و مدیریت شرکت‌ها می‌توان این هزینه را به میزان قابل ملاحظه‌ای کاهش داد. مطالعه حاضر نشان می‌دهد که بیشتر مسائل شرکت‌ها قابل حل بوده و می‌توان با انجام اصلاحاتی شرکت‌ها را در مسیری قرار داد که هدف‌های اعلام شده را برآورده سازد. در پایان مقاله جهت حل مسائل موجود پیشنهادهای ارائه گردیده است.

## INTRODUCTION

After the Islamic Revolution of 1979, there was a widespread unemployment in Iran, especially among high school and university graduates. To ease this problem, the Revolutionary Council approved a resolution aiming at extending credit to unemployed educated youths, provided that they join production co-operatives (2). To implement the problem, an organization named, "The Center for Development of Productive and Development Services" (here-after called Center) was formed to supervise the credit program and co-operatives. The co-operatives were divided into agricultural, manufacturing, and services. Those interested in getting credit were obliged to act jointly, prepare a project and apply for a loan. After the project was approved by the Center, the group formed a co-operative officially and received the loan in three installments (1,3). The co-operatives were controlled by the Center and the loan was used for productive purposes. The loans were interest free but a charge of four percent on loan was paid by the co-operatives as a bank fee. The repayment period of the loan was 15 years. The grace period was not unlimited and repayment of the loan should be started after project was completed and normal operation started. In cases, where the co-operatives faced the problems, the Center could extend the grace period.

The number of co-operatives increased at a relatively rapid rate during the early years but has slowed down

recently due to a decline in the funds allocated to the program. According to available statistics, up to the first half of 1981, 4162 co-operatives were formed of which 1243 co-operatives were in agriculture, 905 in manufacturing and the remaining 2,014 in services. As a result, 36500 youths mostly educated, were employed in such co-operatives throughout the country. In 1984, the total number of co-operatives increased to 4440 with 36922 members (4).

This new credit program in Iran has special characteristics that makes it different from other credit activities. Hence the lessons which might be learned from the experience could be useful for policy makers in Iran as well as in other developing countries.

#### METHODOLOGY

At the time of study, about 116 co-operatives were active in Fars Province of which 49 were engaged in farming. Out of 49 farm co-operatives, 16 were randomly selected for interview. The sample included co-operatives engaged in poultry, dairy cattle, sheep, orchard, and other farming enterprises. A random sample of 20 members was selected for interviews. In addition, the general managers of all sample co-operatives were interviewed.

#### RESULTS AND DISCUSSION

Eighty seven% of the co-operative members were under 30 years of age, 49% between 20 and 25, and only 13% were over 30 years old. Regarding the education of members, most of the members (75%) had only high school diplomas, 10% were college or university graduates, 8% had either a primary school or somewhat higher level of education and the remaining 7% were illiterate (Table 1). Among those who had high school diplomas only one had come from an agricultural vocational school and there were two members with higher education (B.S. and M.S.) in agriculture. There was

Table 1. The level of education of co-operative members.

Level of education	No. of members	%
High school diploma only	86	75
College and university degree	12	10
Primary school only	9	8
Illiterate	8	7
Total	115	100

no rational relationship between members' education and the co-operatives' activity. This can be considered as a handicap in the working of co-operatives. This problem could be eased, to some extent, if the members had previous experience in farming. Although 42% of respondents were somewhat familiar with farming, only 9% had previous experience in farming. This was shown by asking members questions about the place of their residence before joining the co-operatives. It became clear that 65% of respondents were from cities and were unfamiliar with farming.

As shown in Table 2, the main reason for joining the co-operatives was unemployment. Forty six percent of co-operative members had been unemployed for more than two years and 90% for more than one year before joining the co-operatives. "Having a productive job" was mentioned by 25% and "to play a part in the country's struggle to increase agricultural production" by 14% of the members as reasons for joining the co-operatives. Other reasons such as "high income" and "having an independent job" were mentioned by the remaining

Table 2. Reasons for joining the co-operatives.

Reasons	Frequency	
	Absolute *	%
Unemployment	14	50
Having a productive job	7	25
To play a part in country's struggle to increase production	4	14
Other reasons	3	11
Total	28	100

\* In some cases more than one reason was mentioned by respondents.

11%. From the reasons given by the respondents, it was clear that unemployment was the major reason for joining co-operatives. In fact, due to prevailing unemployment, most of the members had no choice other than joining co-operatives.

Weak incentives together with a wide gap between the co-operatives' performance and members' expectations resulted in a substantial decline in the number of members over time. The number of members in the co-operatives sampled declined by 38% from the original number of 182 to 126. In addition, a number of old members had been replaced by new members.

#### Labor Surplus

The major problem facing co-operatives was the existence of surplus labor. The average size of co-operatives was 7 members and in most cases, the available labor was not

utilized properly. For example, a broiler co-operative with 45000 capacity was operating with 15 members.

According to regulations, the members receive a monthly salary based on their level of education during the grace period. This monthly salary starts from 20000 Rls for unskilled laborers and reaches 45000 Rls for members with B.S. or higher degrees. Excess members in co-operatives caused a substantial increase in operating cost.

Most of the co-operative members complained about the labor surplus and considered it a major problem facing co-operatives. Even with the expansion of co-operative activities, most members believed that there was no justification for new members. Only 25% thought that accepting new members was justified if co-operatives could produce high return. Table 3 shows the reasons given by the majority of the respondents who objected to accept new members. Sixty percent believed that

Table 3. Reasons for objection to accept new members.

Reasons	Number	%
Existence of labor surplus	9	60
Difficulty of managing co-operative with more members	3	20
The work done by present members in building up co-operatives	2	13
No reasons given	1	7
Total	15	100

their co-operatives had more members than they needed and that if co-operative could expand their activities, they should produce work for those members who were presently underemployed. Twenty percent believed that management of the co-operative would become more difficult if the number of members increased. Since most of the present members provided labor for establishing the farm, some respondents believed that new members would get benefit without any effort.

#### Economic Evaluation

It is useful to look at the economic aspects of these farm co-operatives. The economic aspect of co-operatives with similar enterprises was studied separately. Low returns and high operating costs were general characteristics of most co-operatives. As an examples, economic analysis of three egg-producing co-operatives is shown in Table 4. Comparison of columns 2 and 3 shows that the egg-producing co-operatives worked below their maximum capacities. Columns 4 to 8 show total cost, total revenue and profit under two different assumptions. Column 7 shows profit under present condition. Two of the co-operatives showed profit and the third one faced a loss of 318000 Rls. Assuming a monthly salary of 30000 Rls, which was considered an acceptable monthly income, all three egg producing co-operatives faced annual losses ranging from 55000 to 793000 Rls (column 8).

Attempts were made to determine the minimum economic size for each unit. To this end, the revenue and variable cost per hen were calculated. Then by the use of the following formula, the minimum economic size or break-even point for each unit was calculated:

$$\text{Minimum economic size} = \frac{\text{annual salary payment} + \text{fixed cost}}{\text{revenue per hen} - \text{variable cost per hen}}$$

Comparison of columns 3 and 9 shows that all three units were operating below minimum economic size. To cover all expenses, they should increase their producing capacity up to level

Table 4. Costs and revenues of three egg-producing co-operatives, 1983.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Unit	Maximum capacity (hens)	Present capacity (hens)	Total cost assumption <sup>†</sup> I (Rls)	Total cost assumption <sup>‡</sup> II (Rls)	Total revenue (Rls)	Profit assumption I (Rls)	Profit assumption II (Rls)	Minimum economic size (hens)
No. 1	24000	8000	22763000	24275000	24220000	1457000	-55000	9000
No. 2	21000	10000	25703000	27215000	26422000	919000	-793000	12000
No. 3	24000	7000	20513000	20513000	20195000	-318000	-318000	7300

<sup>†</sup> Present condition.

<sup>‡</sup> Salary payments of 30,000 Rls per month was assumed.



shown in column 9.

On the other hand the prospects of the co-operatives with orchards were promising. Based on calculations made, one of the co-operatives could make a profit of 45637000 Rls in 4 yr. Economic analyses of two fruit producing co-operatives which planned to produce citrus and other fruits revealed that they could possibly made yearly profits of 849000 and 13185000 Rls in 3 yr.

#### CONCLUSIONS AND RECOMMENDATIONS

Through establishing farm co-operatives for unemployed graduates, the Iranian government attempted to replace mortgages by education as a security for extending loan. In spite of the attractiveness of the program, its future success is bound to overcome the serious problems indicated in the study. The results of the study revealed that the problems were mainly due to the way the program was implemented rather than the program itself. Some measures could be taken by government to modify the program in order to achieve the stated objectives. On the whole, under the present situation, the cost of creating jobs for unemployed graduates in farm co-operatives is rather high. But by implementing reforms in the process of formation and managing the co-operatives, costs could be reduced considerably.

To overcome the problems and achieve the stated objectives the following recommendations are made:

1. Provisions should be made to clarify the state of ownership in the co-operatives and members' right to co-operatives' property during the period of memberships and when upon leaving the co-operatives. This creates a feeling of security which will have a positive effect on production.
2. The problem of excess members should be tackled in such a way to create a balance between the number of members and the amount of work available in the co-operatives. Fewer

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members would result in a substantial decrease in operating costs and increase net returns.

3. Although the co-operatives should not be supported to the extent that they completely depend on the government, the fact that they have been formed by low income and inexperienced graduates calls for more support from government agencies especially in the early years of their operation.

4. Lack of confidence between the Center's personnel and co-operative members is considered a handicap in the management of co-operatives. It is suggested that the Center took actions to improve its relationship with co-operatives. Increasing the number of visits to co-operative farms and arranging common monthly meetings with co-operative members could be helpful in this respect.

5. A formal co-operation among co-operatives with similar enterprises should be established and promoted. This could be achieved, initially, through visits of leading co-operatives by other co-operative members, sharing the experience of older co-operatives with newcomers and finally forming co-operative unions among co-operatives with similar enterprises. A major function of the union could be marketing of member co-operatives' products. This would certainly lead to an increase in members' income.

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