

# PRESENT SITUATION, PROBLEMS & FUTURE TASKS OF AGRICULTURAL COOPERATIVES

Study Reports from Bangladesh,  
India, Malaysia, Philippines &  
Sri Lanka



International Co-operative Alliance  
Regional Office for Asia and the Pacific

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# International Co-operative Alliance

## *Regional Office for Asia and the Pacific*

`Bonow House'  
43 Friends Colony (East)  
New Delhi 110 065, India  
Tel. 011/683-5123  
Telefax 011/683-5568  
Telex 031/75025 DICA IN  
Cable `Interallia', New Delhi

## *Head Office*

15 Route des Morillons  
CH-1218 Grand Saconnex  
Geneva (Switzerland)  
Tel. 022/798-4121  
Telefax 022/798-4122  
Telex 415620 ICA CH  
Cable `Interallia', Geneva

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## FOREWORD

The Central Union of Agricultural Cooperatives (CUAC) of Japan has undertaken a project to request the cooperative scholars and cooperators of selected countries of Asia to make a study and write a report on Present Situation, Problems and Future Tasks of Agricultural Cooperative Movements in selected countries of Asia to be financed by the Scholarship Fund of CUAC.

Accordingly the CUAC requested the ICA ROAP to coordinate this project. The ICA ROAP selected five eminent scholars from Bangladesh, India, Malaysia, Philippines and Sri Lanka to undertake this assignment. The reports so prepared are now being translated and published into Japanese language so that the Japanese readers may improve their understanding of the agricultural cooperative movements in these countries. At the same time, the ICA ROAP decided to print the report in English as well.

This volume is the outcome of the reports received by ICA ROAP from the five countries. I am sure this report will be helpful to those who are interested in knowing about the latest situation, problems and future tasks of agricultural cooperatives in the five selected countries.

The ICA ROAP extends its appreciation and gratitude to the CUAC for understanding and financially supporting this activity which has made this publication possible.

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G. K. SHARMA  
Regional Director

## CONTRIBUTORS

1. Mr. S. A. Safdar  
Consultant for Cooperatives,  
(Retd. Joint Registrar of Coop. Socys &  
ex-General Manager, Bangladesh Samabaya Bank Ltd.,)  
64/2 Siddeswari Circular Road,  
(2nd Floor), Shantinagar,  
Dhaka 1217,  
Bangladesh.
2. Mr. J. K. Arora,  
Managing Director,  
National Cooperative Development Corporation,  
4, Siri Institutional Area, Hauz Khas,  
New Delhi - 110016  
India.
3. Mr. Idris Ismail,  
Senior Lecturer,  
Cooperative College of Malaysia,  
103, Jalan Templer, Peti Surat 60, 46700, Petaling Jaya,  
Selangor,  
Malaysia.
4. Dr. Vicente U. Quintana,  
Consultant,  
Agricultural Credit & Cooperatives Institute, (ACCI)  
Umali Sub-Division, College,  
Los Banos, Laguna 4031,  
Philippines.
5. Mr. Dixon Nilaweera,  
Secretary,  
Ministry of Agriculture, Development and Research,  
73/1, Galle Road, Colombo 3,  
Sri Lanka.

# **Present Situation, Problems and Future Tasks of Agricultural Cooperatives in Bangladesh**

## **1. HISTORICAL BACKGROUND**

### **1.1. Break-down of self-contained rural economy, peasants riots and introduction of cooperation.**

1.1.1. The Cooperatives were initiated in what is now Bangladesh early in this century as in the rest of Indo-Bangladesh Sub-continent, with formation of agricultural credit cooperatives societies following the enactment of the first Indian-Co-operative Societies Act of 1904. Co-operative in the sub-continent had not spontaneously arisen from the people, out of their urge for solving their economic and social problem on the basis of self-help and mutual aid. It was the British rulers who introduced cooperatives more to serve their own imperial interests than in the interest of the people. Prior to advent of the British rule, the country had a self-contained and a self-reliant rural economy. Needs of the rural people, who were predominantly agriculturists were few. All their primary needs for food, clothing and housing were met from within or nearby villages. Inroad of foreign goods tended to change the habits of the people and create new needs. The indigenous producers failing to compete with sophisticated foreign goods, lost their market, income and even means of livelihood.

1.1.2. Pushing of foreign goods by the British Trading interests in the rural areas resulted in emergence of middlemen traders and trader money lenders and other parasitical agents at different levels, - all of whom flourished at the cost of the farmers. A new land law initiated by the British rulers introducing permanent settlement rights to the Zamindar (land lord) deprived the agriculturists of their age-old rights to their ancestral lands. Impoverishment of the villages and the farmers started. Agricultural operation became less and less remunerative. Very soon large percentage of agriculturists became indebted to the rapacious money-lenders and found themselves in deep debt and in endless misery. The break-down of the self-reliant rural economy was complete.



1.1.3. Around seventies of the last century there were discontent peasants almost all over the Indo-Bangladesh Sub-continent. There were murderous riots and uprisings of debtors against money lenders. At place the disturbances took the shape of near rebellion. This gave British rulers a big jolt and set them trying various ameliorative measures through special legislations dealing with tenants rights, alienation of lands, restriction on usury to improve the lot of the agriculturists but without success. At last the Imperial Government taking its cue from the development of rural banks in Germany turned its attention to the idea of using the cooperative organisation in the British Indian set up, as a means of solving the problem of agricultural indebtedness which problem loomed largest in rural socio-economic sector.

## 1.2. Early Cooperative Legislations - Their short and long term effects.

The first cooperative legislation of the country the "Indian Co-operative Credit Societies Act of 1904" was thus enacted. It embodied the main features of the Raiffeisen type of village bank, of Germany. It provided for formation of simple primary societies only, with joint and limited liability, to procure funds and to supply agricultural credit and to solve the problems of rural indebtedness. Formation of cooperatives were to be initiated by a government official designated as Registrar of Co-operative Societies, who was to be responsible for their organisation, registration, supervision and audit. He was supposed to be "friend philosopher and guide" of the cooperative movement. The Registrar and his role was an innovation and an obvious safeguard lest cooperatives or cooperative movement, in a subject nation, turn subversive and disloyal to the Imperial rulers. This assigned role of the Registrar was to influence indelibly, the later course of development of the cooperatives in the country and does the same even to this day.

1.2.2. The Act of 1904 was replaced by a new cooperative societies Act in 1912. The new Act provided for formation of higher tier federations as well as non-credit sectoral and professional cooperatives. In spite of changes, the cooperatives were to remain essentially government sponsored institutions, guided and sponsored by it and firmly tied to its apron strings. These early cooperative legislation of 1904 and 1912 set precedents which permanently influenced and inhibited growth of cooperatives on self-reliant and democratic lines. It generated approaches and attitudes, in the minds of the people and also in the minds of the governments succeeding the Imperial rulers, which were not conducive to the growth of a self-reliant cooperative movement. It is however, understandable that an imperial government may have its reservations about the growth of strong popular rural cooperative movement which may some day turn its force against it. The alien rulers have left, but strangely enough the

distrust of the people some how yet appear to persist as a tradition, and remains ingrained in the laws and in the approaches of the rulers of the country to cooperatives.

### **1.3. Expansion of Cooperatives.**

1.3.1. The period, following the end of the World War I, was a period of boom and a buoyant economic condition prevailed. As a result the period saw an expansion of cooperatives of all types particularly in the agricultural sector. One remarkable feature of these cooperatives were that these were mostly financed from within the movement from shares and deposits from members as well as deposits from non-member; and very little came from the government. Another feature of these cooperatives were that these were predominantly credit oriented. As for proportion of families brought within the cooperative fold in the country upto the year 1928-29 was reported to be about 3.8% which was small but compared to other provinces of the then India, the proportion was higher than many.

1.3.2. There is also an outstanding example of development of an exceptional cooperative viz. The Bengal Whole-Sale Co-operative Society Ltd. in 1924 which built up a chain of marketing, sale & supply cooperatives, particularly for marketing of jute, the most important of the cash crops of the country to ensure fair price to the jute grower-members and rendered a remarkable performance.

1.3.3. The whole sale society with its component chains, worked under various handicaps and adverse circumstances in a sharply competitive market. Yet with their skill, efficiency, and hard labour established their mark with the mills, for their guaranteed assortment standard and packing. Within a short space of time, enjoying certain advantages inherent to cooperative organisations, having links at the grass root, it made its position felt in the jute market. Cooperative jute packing came to be recognized by the Calcutta Jute Mills as equal to best European packing. Cooperatives soon came in clash with powerful British Jute Trading interest who could not but view co-operatives as threat to their monopolistic position in the jute market. These cooperatives along with their provincial whole-sale society was placed under liquidation unceremoniously, thereby cutting short the career of jute cooperatives.

### **1.4. Setback, Debacle and Impacts.**

1.4.1. From 1929 onward, an acute economic depression set in the country, as also through out the world. There was catastrophic fall in the prices of agricultural products and land. The cooperatives suffered a rude shock,

because of huge defaults, originating from depression. Many of the cooperative societies became defunct as funds became frozen by defaults. Expansion of the cooperatives came to stop.

1.4.2. Whatever the cooperatives of the country-which were predominantly agricultural, achieved during the period from 1904 to the middle of forties, by way of monetary gains, institution-building, confidence and all that goes with it--met with almost a complete debacle because of some catastrophic external blows, which were-

(i) The Depression of Thirties with resultant wide-spread default of loans of the cooperatives caused by fall in price of agricultural products and land.

(ii) Operation of Bengal Agricultural Debtors Act of 1935 and the Bengal Money-Lenders Act of 1939 spelled disaster to the co-operatives. These two laws were designed to relieve the agriculturists from their burden of debt, but these affected the finances of the cooperatives, very much adversely as the co-operative loans were not exempted from the operation of these Acts and the cooperatives were treated on the same footing as the money lenders. The incidence of relief provided by the laws, therefore had to be fully borne by the concerned cooperatives.

(iii) The World War II had brought in its wake various economic difficulties for the people, which had its direct repercussion on the cooperatives of country as it was closest to the war front in Burma.

(iv) The Great Famine in Bengal of 1943 took a toll of millions of lives and also dealt a severe blow to the cooperatives and their members affected by it.

(v) Political turmoil, partition of India and Bengal in 1947 followed by migration of population had seriously affected the finances of the cooperatives of the country.

1.4.4. There were 28,604 agricultural primary cooperatives in the part of the country which is now Bangladesh, on the 14th August, 1947, the date of partition of India, showing a total membership of 891,987 a large number of whom might either, have died, rendered destitute or have migrated to India. Most of these societies were in a state of financial collapse, 24,675 out of which were placed under liquidation by the year 1957. While majority of these societies were placed under liquidation because of their untenable financial position, quite a good number of them were wound up in rigid pursuance of government policy of not having any unlimited liability society at the primary level. Through this process of liquidation, however, the Central Co-operative

bank of the country lost a sum of Tk. 29.0 million, which represented their own investment in these societies which as a result, turned out to be bad and irrecoverable.

## **1.5. Post Partition Situation in Agricultural Cooperative Sector.**

1.5.1. The post partition situation in respect of Co-operatives, particularly agricultural credit cooperatives was a dismal one. No apex credit cooperative existed. The one that existed in undivided Bengal was situated in Calcutta and its assets were not divided and made available to this part of the country. The Central Cooperative Banks (CCB) stood mostly bankrupt except for their fixed and block assets. The primary societies were in a state of disarray and existed mostly on paper. There were hardly any usable assets anywhere, these being frozen by defaults. The whole cooperative credit structure, including agriculture credit, was in a state of collapse. Government was too preoccupied with other problems of the partition. The most disadvantaged group of persons at the time were the agriculturist and the members of the agricultural co-operatives, who had lost their source of credit and were at a loss to find an alternative.

## **1.6. Major Trends of Development in Agricultural Cooperative Sector since Partition having impact on the present situation.**

### *1.6.1. Introduction of Union M-P-Societies:*

(i) The need to resuscitate and re-build the cooperative structure, particularly in the agricultural sector, was urgently felt. It was soon decided to abandon the old cooperative system of village based single purpose unlimited liability societies and start afresh with union based multi-purpose cooperative societies with limited liability. This was a break from the past.

(ii) The argument behind introduction of limited liability in place of unlimited liability scared comparatively solvent group of persons away. It was supposed to have retarded capital formation. The replacement of single purpose credit societies by multipurpose cooperatives followed from the reason that a credit cooperative took care of only one need of the farmer, whereas his needs were many. The reasoning behind organising co-operative at the union, instead of at the village level was that small size of primary units often proved uneconomic, and suitable persons were not always found within the small area of a village to manage the cooperatives.

(iii) The decision to introduce limited liability at the primary level was soon to have far reaching effects. Limiting the liability of members only to the

extent of his share removed the dread of solvent sections of people to join societies meant for persons of moderate means not only to share the benefits of cooperatives meant for economically weaker section of the people but to exploit them as well. In later decades the money lenders, traders, richer influential people and other inter-lopers trooped into the cooperative to assume their leadership and to keep them under their grip, thereby negating the objective of cooperative; and the tradition goes on. Even to this day in 1989 it is hardly possible for a rural cooperative of any kind or for any other rural institution to get away from the influence of the rural power elite which dominate the rural scene. The poor and the under privileged are yet very much under their grip and sway.

#### 1.6.2. *Establishment of a new provincial agricultural credit cooperative Bank - The EPPCB.*

(i) There being no apex provincial cooperative bank in the then East Pakistan, it was felt necessary to establish one such bank urgently to provide leadership and other necessary assistance to re-organise and co-ordinate the activities of cooperatives of the country which had been severely affected by the partition. A new apex credit cooperative bank, The East Pakistan Provincial Cooperative Bank Ltd. (EPPCB) was organised and established at Dhaka in March, 1948.

(ii) In initial years the EPPCB had very little resources to function effectively as the provincial apex for dispensation of agricultural credit. During the 10 initial years from 1948-49 to 1957-58 Government supplemented the efforts of the apex bank by issue of a total loan of Taka 13.4 millions to it for issue of short term and long term agricultural loans to the primary agri-coops and the Land Mortgage Banks.

(iii) There was a change in Government policy. The supply of agricultural credit and providing of assistance to the co-operatives for the same purpose was one of the statutory functions of the State Bank of Pakistan (SBP) but it could not come to the assistance of the cooperatives, with the needed financial support, for supply of agricultural credit till the year 1958-59. On coming to the field, however, the State Bank turned out to be the principal source of re-finance to the EPPCB and this helped the cooperatives to revive and enlarge their credit operation to a great extent. Starting with a short term of Taka 35.00 lakh in 1958-59, the volume of short term credit increased year after year. The credit link with the SBP, and after liberation of Bangladesh with the Bangladesh Bank (the Central Bank of the country) has continued. The apex Provincial Bank besides taking care of seasonal crop loan of the farmer also took care of their Medium and Long Term credit needs through the usual

channel. The Long Term loans are issued to the farmers through the Land Mortgage Banks. The Provincial Bank (EPPCB) also gradually diversified its credit activities by obtaining credit accommodation from the SBP for providing short term credit to the fishermen and Sugar-cane growers to be channeled to them through their respective sectoral cooperative societies. The financing of the Fishermen's cooperatives through the East Pakistan Provincial Fishermen's Cooperative Society Ltd. was started in 1961-62 and continued upto 1964-65, after which it was stopped due to defaults. The financing of sugar-cane growers through the Central Sugar-cane growers Cooperative Societies started from the year 1962-63 and has continued since.

#### 1.6.3. *Emergence of the National Apex Cooperative Bank:*

On liberation of Bangladesh in the year 1971 the East Pakistan Provincial Cooperative Bank Ltd. was converted as the National Apex Cooperative Bank, viz. the Bangladesh Sambaya Bank Ltd. (BSBL) with all the assets and liabilities of the farmer apex bank.

#### 1.6.4. *Growth and Expansion of Multi-purpose Cooperative Societies.*

(i) From 1948 onwards Union Coop. M-P-Societies (UCMPS) continued to be organised. By 1953-54 there were 3,949 societies in the country roughly one society in each union. 135 Central M-P-Societies were also organised at the then thana, sub-division or district levels. In the initial period in many places the UCMPS functioned as Government appointed dealers of controlled commodities. In some jute growing areas the UCMPS undertook purchase of jute from growers under a scheme, designed to ensure fair price to the growers. The participation in jute purchase scheme and dealing in controlled commodities did bring some gain to the societies--which conducted their business with funds generated from within the societies. From 1958-59 however, the UCMPS switched over their activities mainly to supply of agricultural credit to the farmers obtained through C.C.B. from the EPPCB. The re-financing facilities of the State Bank having continued, the UCMPS remained the most important source of institutional credit in the village till the year 1977 after which the Nationalised Commercial Banks (NCB), Bangladesh Krishi Bank (BKB) and others also took to dispensation of short term agricultural credit to augment the flow of short term agri-credit to the farmers.

(ii) The UCMPSs played a significant part when the Government, in 1961 launched a "Crash Programme", to increase agricultural production by introducing for the first time, chemical fertilisers, various modern methods of cultivation, new varieties of crops in certain selected districts and sub-Divisions. It was a pioneering venture in which quite a number of Japanese

farmers and farmer families came over to this country to assist in the process of modernisation of agriculture. The UCMPS, in these areas, assumed a major role in financing and implementing the crash programme and in general, popularising the use of chemical fertilisers and new agricultural practices.

1.6.5. *Jute Cooperatives of Fifties-a success turned failure.*

(i) A Cooperative Jute Purchase Scheme was initiated during 1950-51 in an effort to ensure fair price to the jute growers and the CCBs, Central M-P-Societies and the UCMPs joined hands, through a Provincial Committee to work together. They worked hard and by the next year, 1951-52 found themselves ranked third largest among the buyers of jute in the province. Encouraged by the success, an apex Society-viz. East Pakistan Provincial Cooperative Jute Marketing Society Ltd. (EPPCJMS) was organised, to achieve a closer co-ordination of activities of the jute dealing cooperatives and to provide them with a structural support. There was further expansion of business of the jute cooperatives from 1953-54 to 1957-58.

(ii) The cooperatives played a significant role in keeping the jute market to a large extent free from the manipulation of the big traders, who almost always combined to depress the prices. The EPPCJMS with its affiliated Societies gradually took up the whole range of work from collection of jute in the villages to sorting, packing and shipment to foreign buyers. By the year 1955-56 it was holding the position of 5th largest shipper of jute in the country. It was successful in establishing the "COOP MARK" in the world jute market, had business relations with buyers in different countries in Western and Eastern Europe and in Asia. The ILO Asian Cooperative Field Mission (1955) found the EPPCJMS and its affiliates as "more promising" than any other cooperative operating in the then East Pakistan and it seemed to the Mission-

"to possess, great possibilities in doing sound business and is directed by a dynamic enthusiastic and capable management"

(iii) In later years the EPPLJMS suffered losses arising from usual fluctuation of prices and due to certain internal defects. Losses by themselves would not have been so serious, as the then Finance Secretary of the Government of Pakistan, observed in a report--

"compared to benefits derived to the cultivators the loss sustained was not substantial"

However, a capital was made out of these temporary losses, (which in jute business are usually balanced by later gains), by interested quarters, particularly jute trading interests of both the wings of Pakistan, whose conspiracies and manipulations brought about shifts in Government policy resulting in stoppage of Government guaranteed loans on hypothecation of jute to the Society. There were interferences in the management of the Society from powerful internal as well as external sources causing disruption in the business of the Society.

(iv) A Cotton Spinning Mill with 12, 500 spindles installed by the EPPCJMS in Narayangonj, with Japanese machineries with help of Japanese Engineers and brought into production by the Society at a huge cost and efforts, with the object of off-setting possible and occasional losses in jute business, with secure income of the mill, had to be sold out at the behest of the Government to pay off Government loan, in spite of strong opposition from the members of the Society and the Cooperative Department.

Further shifts in Government policy resulted in closure of business of the Society and finally in placing it under liquidation in early sixties. This was indeed a case of a successful jute growers cooperative throttled and killed through conspiracies from without. It had also been a repetition of history.

#### 1.6.6. *Comilla Cooperative Experiences-advent of the I.R.D.P. and the B.R.D.B.*

(i) The Comilla Cooperative Experiences was launched by Dr. Akter Hamid Khan in Comilla in 1960. Comilla Type Cooperative was a two tier cooperative system with Thana Central Co-operative Association (TCCA) at the top and village based K.S.S. or Farmers Coop. Society at the primary level based on rigid performance of certain members--discipline regarding savings, weekly meetings etc.

(ii) By the year 1970 an Integrated Rural Development Programme (IRDP) was mooted and prepared on Comilla Cooperative Model for the whole of the then East Pakistan under the sponsorship of the Agricultural Department of the Government and the work was to commence from July 1971. War of liberation having intervened, the launching of the programme was delayed. In 1972, the work was initiated in 33 thanas. Since 1972 each year, more and more of the thanas, were taken up under the IRDP Programme and by the year 1981-82, the IRDP had covered 343 thanas with 343 TCCAS having a total of 37,526 primary societies (KSS) as its members. In the year 1982 Bangladesh Rural Development Board (BRDB) was constituted by the Government by an Ordinance and simultaneously the BRDB took over all the duties, functions and obligations of the IRDP. The BRDB was established



with the objects of formulating policies, coordinating activities and supervising the implementation of various projects and programmes relating to rural development as may be assigned to the Board by the Government. By 30th June, 1989, the BRDB has taken up 450 Upazilas out of the total of 495, under it, with 450 Upazilas Central Co-operative Associations (UCCA) and 139 other Central Associations having a total of 77,299 primary societies (KSS etc.) as its members.

## 2. PRESENT SITUATION

### 2.1 Some Basic Facts About Bangladesh.

Bangladesh lies in the north eastern part of South Asia. It forms one of the largest delta in the world and is situated between 20.34 and 26.28 north latitude and 88.01 and 92.41 east longitude. It has a total area of 55,598 sq. miles or 143,999 sq.kilometers. Except for hilly regions in the north east and south east and highlands in the north and north west country consists of low flat and fertile lands. Total forest area cover 16% of the land. Population growth rate has been estimated at 2.32 per annum. Density of population has increased to 1850 per sq.mile as in 1986. Literacy rate of the country as recorded in the census of 1981 was 23.8%. It is about the same in 1989.

Agriculture is the main occupation of the people employing 61.3% of labour force. This sector directly contributes around 46% of the gross domestic product (G.D.P.). Bangladesh has got one of the most fertile lands but due to paucity of capital and inputs and sometime due to its inapt use, yield per acre is rather low compared to countries capable of using advanced and higher technologies. Things are, however, looking up. Bangladesh is marginally deficient in food grains. Gradual increase in production achieved through introduction of available modern and innovative methods of production, has failed to keep pace with increasing population pressure. Persistent floods, draughts, cyclones etc. are some of the imbalancing factors. Besides, Bangladesh being a lower riparian country has to depend on India for regular flow of water to its biggest rivers, which irrigate some of the largest tracts of agricultural lands of the country--which is as good as its life blood.

The percentage of landless farmers has been estimated at 56.3% and the rate is increasing.

Rice, wheat, jute, sugar cane, tobacco, oil seeds, pulses and potato are the principal crops. Vegetables and fruits of various kind and spices are also produced. The country produces 95 million pounds of tea annually.

Bangladesh is administratively divided into 4 Divisions comprising of 64 Districts, which are composed of 495 Upazila/Thanas which consist of 4472 Unions, which again are composed of 85,650 Villages. Total number of households are around 15.00 millions with an average of 6 members.

## **2.2 Organisation of Agricultural Cooperative Movement.**

The Cooperative Movement of Bangladesh is composed of 21 Apex Co-operative Societies, 1099 Secondary Societies and 1,28,380 Primary Cooperative Societies with an individual membership of 7,081,805 (including those of the BRDB) as on the 30th June, 1989, comprising of different economic sectors so far covered by the Cooperatives. In the above set up the Agricultural Co-operatives occupy the largest and the most important position having within its fold

- 4 national apex cooperative societies, and
- Bangladesh Rural Development Board (BRDB)

which together has a total of

- 782 Secondary or Central Societies working under them.  
These Secondary Societies has the largest group of
- 1,10,419 primary societies as its members, which has a total of
- 5,366,489 individual members in their rolls.

These represent more than 75% of the total primary societies as well as the total individual membership of the cooperatives of the country. All these Agricultural Cooperatives however, operate under the sponsorship of two parallel authorities viz, the Cooperative Department and the BRDB.

## **2.3. Development of Two Streams of Cooperatives in the Agricultural Sector.**

(a) Two Streams of Cooperatives are operating in the Agricultural Sector, side by side, since the introduction of the Integrated Rural Development Programme (IRDP) in the country in 1972. One stream the older one, is operating since initiation of the cooperatives in the country in 1904 under the sponsorship and guidance of the Cooperative Department headed by the Registrar of Coop. Societies. The other stream started operation under the close guidance and sponsorship of the IRDP in 1972, work of which was taken over by the Bangladesh Rural Development Board (BRDB) in 1982. Both

streams of Cooperatives operate under the same cooperative law and the Registrar of Cooperative Societies has exactly similar statutory obligation in respect of registration, audit, inspection, enquiry, adjudication etc. for both the streams of cooperatives. However, for sake of convenience we would refer to one stream of cooperatives as the Departmental Coops.-and the other as the BRDB Coops, in view of their initial sponsorship, though neither of these Cooperatives either belong to the Coop. Dept. or the BRDB, but to their share-holder members.

(b) Distribution of Societies and their membership between the two streams of the Cooperatives are as follows:

Level	Dept. Coops	B.R.D.B.Coops	Total
Apex Coops	4	--	4
Secondary Coops	193	589	782
Primary Coops	32,332	78,087	1,10,419
Individual Membership	27,73,620	25,90,869	53,66,489

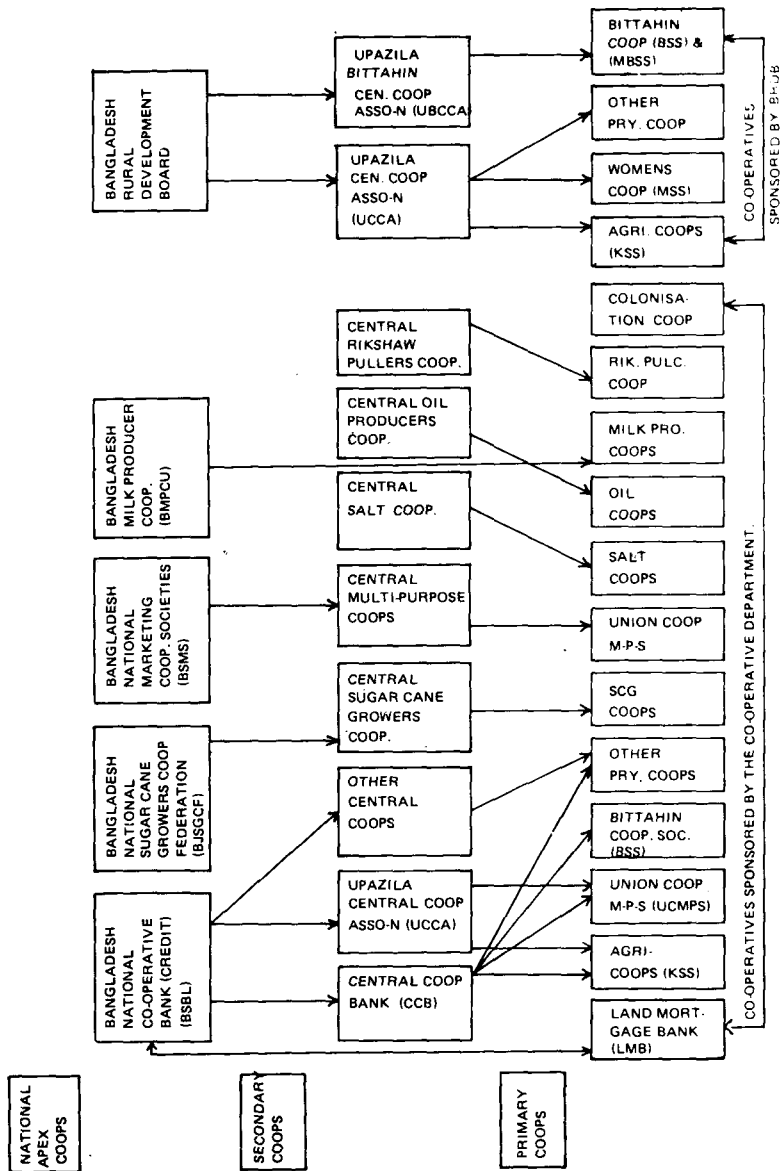
Average membership of a primary agricultural society is about 49 persons. Cooperatives are yet to cover all the house-holds. Statistically, it appears that membership coverage is about 0.36 of the total house-holds of the country though allowance has also to be made for house-holds having more than one member in a society, which is so often the case.

Two national level societies viz, Bangladesh National Coop. Union Ltd. (BJSU) and Bangladesh National Rural Development Co-operative Federation Ltd. (BJPUSF)-engaged in general co-operative extension, education training and related activities have not been included in the above statement and in the organisational set up as these are not working exclusively for the Agricultural Sector alone but for all sectors.

### 3. ORGANISATIONAL STRUCTURE OF COOPERATIVES ENGAGED IN AGRICULTURAL SECTOR.

A chart showing "The Organisational Structure of the Cooperative Societies engaged in the Agricultural Sector" of the country is shown in the following page as Annexure-'A'.

AGRICULTURAL CO-OPERATIVE SECTOR OF BANGLADESH  
THE ORGANISATIONAL STRUCTURE



### 3.1. Operation of the Organisational Structure.

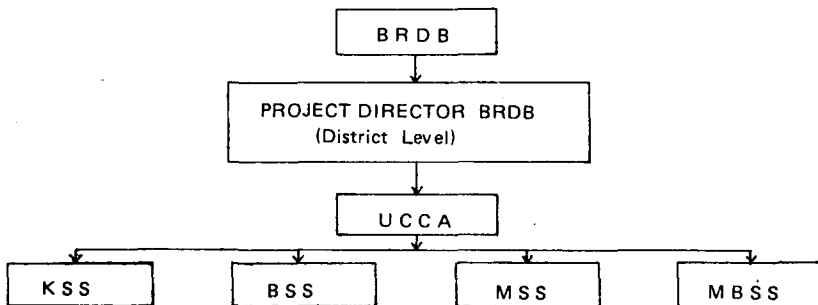
(i) The basic organisation in a cooperative set up, as the organisation chart indicates, is the Primary Society, on which the entire cooperative structure stands. Members voluntarily unite to form such a primary society. They decide about their objectives in conformity with prevailing cooperative and other laws of the country. Ten or more persons above the age 18 may form such a society and apply for its registration to the District Cooperative Officer (DCO) or to other authorised officers of the concerned district or upazila. If all the legal and other requirements are met, the D.C.O. or the other authorised officers, would register the society. A primary society thus registered, may seek affiliation from any higher tier coop. society, if its business so requires. There is however, no legal obligation to do so. The activities of the co-operatives centre round the primary societies and other higher societies are built up to serve and assist the primaries. Ten primary societies may join to form a central society and ten central societies may join to form a national or apex co-operative society.

(ii) The older cooperatives, sponsored and organised by the Co-operative Department are predominantly three tiered and those sponsored by the BRDB are described as “two tiered” co-operatives. This is often regarded as the distinguishing feature between the Coop. Dept. sponsored and the BRDB sponsored co-operatives. However, neither is exclusively two or three tiered. In the Departmental Sector there are a number of cases of co-operatives which are two tiered and some are even one tiered. Milk Cooperatives, Land Mortgage Banks, Salt Coops. etc. are two tiered; colonisation and other societies are single tiered.

(iii) It, however, requires a mention that the “Two Tier” BRDB Coops., the UCCA and the primaries, were not operationally and functionally complete in themselves and final decision in all meaningful matters, including financial has taken with the consent and approval of the officials of the BRDB at the district and national level. The Study on Cooperatives in Bangladesh (UNDP/BGD/85/233) conducted in 1988 had this to say in the matter:

“But in fact UCCA are supported and controlled by the Project Director (PD) of the BRDB. The PD and his office is the supporting and regulating branch at the district level. BRDB in its turn is the highest parastatal body promoting and governing the entire two tier movement of the country”

The structure of the movement actually stands as follows:



The Bangladesh Rural Development Board (BRDB) is a semi-autonomous Government Body established under a Government Ordinance of the same name in 1982, inter-alia, to formulate policies, co-ordinate activities, supervise implementation of projects, programmes etc. relating to Rural Development. The BRDB in discharge of its functions and responsibilities is responsible to the Government in the Ministry of Local Government Rural Development and Cooperatives and not to the cooperatives constituted by it or affiliated to it.

(iv) The BRDB has no national or apex cooperative organisation to finance and to facilitate the working of the UCCAs, UBCCAs and other such cooperatives. The Bangladesh Jatiya Palli Unnayan Sambhaya Federation (BJPUSF) and such other District Federations are non-profit organisations engaged in co-operative promotional, educational and extension activities. The credit requirement of the BRDB Cooperatives are met from sources outside the co-operative orbit. The credit requirement of the BRDB Coop. System are met by Sonali Bank -- a Nationalised Commercial Bank (not a Coop. Bank), through an agreement entered into between the BRDB and the Bank. Two other NCBs have also since been associated with BRDB-UCCA project financing. For financing the BRDB Coops. the NCBs have the option of refinance from the Bangladesh Bank-- the Central Bank of the country. There is, however, no arrangement for the BRDB Coops to share any part of the profit earned by the NCBs through their big transaction with the BRDB Cooperatives.

The Departmental Agri-Credit Coops., including Central Coop. Banks, Central Sugar-cane Growers Cooperatives, primary Land Mortgage Banks etc. are financed by the Bangladesh National Co-operative Bank (BSBL) with refinance from the Bangladesh Bank. Other Co-operatives such as National Milk Producers Union and the National Marketing Coop. Society received direct assistance from the Government and other external sources under various Government Development Schemes and internationally sponsored projects.

#### 4. PRIMARY SOCIETIES, THEIR MEMBERSHIP & OCCUPATIONAL DISTRIBUTION

4.1. Persons engaged in Agricultural Sector have variegated credit needs, such as, for short term, medium term and long term utilisation, sometime even for bare subsistence. They are occupied in various economic activities, as farming of various crops, after following off-season or lean season subsidiary occupations. Such activities also call for occasional, seasonal and also long term financial accommodation. There are also farmers who might have turned landless or assetless, over the years, but whose main livelihood centre round agriculture and allied occupations. As such, various categories of separate primary societies grew up and came to be organised in the Agricultural Sector in an effort to cover common grounds, in as many related fields as possible.

To provide an idea as to the total range of activities covered, a statement showing categories, numbers of various primary societies organised together with total membership in each category (also with an indication about respective area of each individual society) is furnished below:--

Sl. No.	Category of primary societies	Indication about area of operation of individual societies	Total number of societies	Total membership (Individuals)	Remarks
1	2	3	4	5	6

##### (A) DEPARTMENTAL COOPS

1.	Union Coop. Multipurpose society (UCMPS)	One Union	4,110	13,10,245	Union based Multipurpose agri-coop., to provide overall support in agricultural operations to farmers.
2.	Krishi Sambaya Samity (KSS) (Agricultural Coops.)	Village or part of a village	25,613	11,26,843	Village based multipurpose agri-coop. to provide over all support in agricultural operations to farmers.

1	2	3	4	5	6
3	Bittahin Sambaya Samity(BSS) (Assetless farmers Coop.)	-do-	443	25,901	Organised for landless or nearly landless farmers to provide support to them in their agricultural and other operations.
4.	Sugar Cane Growers Coop.Society.	-do-	681	1,24,448	Organised around sugar mills to meet the needs of sugar cane growers.
5.	Milk Producers' Coop. Society	-do-	210	28,476	Organised in Milk producing belts to meet the needs of milk producers.
6.	Salt Producers' Coop. Society	-do-	254	21,405	Organised in the salt producing coastal belt to meet the needs of salt producing farmers.
7.	Colonisation Coop. Society.	One village or groups of villages	18	5,626	Organised for rehabilitation of groups of displaced farmers usually in unsettled Govt. owned lands.
8.	Land Mortgage Bank (LMB)	One District	53	60,952	Originally organised to stop alienation of land & for agri-development work.
9.	Oil Producers' Coops.	Village or part of a village	74	3,195	Organised in oil seed growing areas to meet the needs of oil producers.
10.	Tobacco Growers' Coops.	-do-	26	7,135	Organised in tobacco growing areas to meet the needs of tobacco growers.
11.	'Pan' (Betal Leaves) Growers Coops.	-do-	36	2,423	Organised in 'Pan' growing areas to provide support to the growers.



1	2	3	4	5	6
12.	Vegetable Growers' Coops.	-do-	15	439	Organised in vegetable growing belt to provide support to the growers.
13.	Fish Culture Coops.	-do-	391	15,215	Subsidiary occupation coops. for farmers.
14.	Poultry Farmers' Coops.	-do-	4	280	Subsidiary occupation coops. for farmers.
15.	Bazar(Market)	-do-	61	27,007	Subsidiary occupation coops organised to manage rural market places.
16.	Rickshaw Pullar Coops.	-do-	343	22,452	Subsidiary occupation coops- also for persons displaced from agri-sector.
<b>(B) B.R.D.B.COOPS</b>					
17.	Krishak Sambaya Samity(KSS) (Agri-coops)	-do-	56,529	19,68,082	Village based multipurpose agri-coop. to provide overall support to farmer in agricultural operation.
18.	Mahila Sambaya Samity(MSS) (Women Coop.)	-do-	9,284	2,73,041	Village based Womens' Coops for Women's development.
19.	Bittahin Sambaya Samity(BSS) (Assetless Farmers Coop.)	-do-	11,452	3,27,211	Organised for landless or nearly landless farmers to provide support to their agricultural & other operation.
20.	Other Rural Coops.	-do-	822	22,535	Subsidiary occupation Coops. for displaced farmers.
<b>Total</b>			<b>1,10,419</b>	<b>53,66,489</b>	

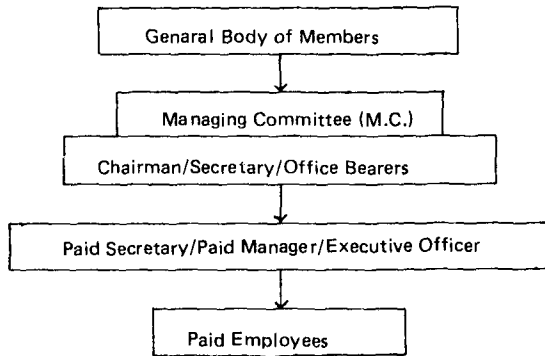
Besides 910 primary Women's Cooperatives operate under the Departmental Sector. These operate mainly in the urban and semi urban areas and only a small section of the membership is involved in the agricultural activities.

#### **4.2. Size of primary societies--the need for amalgamation.**

The size of primary societies often prove to be too small, average membership per society being 49 to permit of viable business operations, and audit and other reports show that quite a large portion of them run at a loss. Societies with small membership are often dominated by rural power groups, who in order to maintain their hold in the society discourage and prevent enlargement of membership. It would also be seen that more than one Society with the same objectives, operate in the same area, limiting each others' business operations. Overlapping and duplication of efforts result in under utilisation of facilities and in increasing overhead expenses. Economic benefits of amalgamation of cooperatives offering similar services in the same and contiguous area, are yet to capture the imagination of the members of the coops. and more particularly of the Government authorities. Rural power groups are yet big stumbling blocks in enlarging the size of primary societies and in merging the smaller societies into larger and viable ones through amalgamation.

## 5. MANAGEMENT SYSTEM

5.1.1 As per cooperative law, cooperative societies of all types and at all tiers maintain a uniform pattern of management structure, such as, - a General Body of Members which is the supreme authority. A Managing Committee or Board of Directors is elected by the General Body of members, which also elects a Secretary, who is responsible to the Committee/Board for managing the day to day administration of the society. The General Body also elects Chairman, Treasurer, Auditor and such other office bearers as may be required and provided by law. The Managing Committee is empowered to appoint salaried and non-salaried officers and employees, as may be required for smooth conduct of the business of the Society. The chain of command in a cooperative, with minor variation for smaller and bigger societies, is as follows:



5.1.2. Deviation from the normal chain of command, however, takes place when the Managing Committee of a society is dissolved by the Registrar or the Government, on grounds of mismanagement etc. and a new M.C. appointed by the Registrar/Government takes its place. So long as the appointed M.C. manages the affairs of the society, the final authority of the society as per law rests with the Government, and the General Body of Members of the society is rendered incompetent to interfere in the work of the appointed Managing Committee, which would appear rather unjust.

5.1.3 The Cooperative Societies Rules of 1987 provides that in the event of any difference of opinion in matters having direct financial implication, between the Chairman/the M.C. and the Principal or Officer of the Society, the matter shall be referred to the Registrar for his decision and the decision of the Registrar thereon, shall be final. This is an encroachment into the rights of the M.C..

**5.1.4.** Annual General Meeting of Members of a Society has to be held once in each Cooperative year, interalia, to

- (i) to consider the annual audit report of the society;
- (ii) to approve the annual budget of the society for the next year;
- (iii) to consider annual statement of accounts of the society.

The General Meeting of Members is also required to conduct election bi-annually to reconstitute the Managing Committee and to elect office-bearers of the society.

**5.1.5.** The management of every cooperative society rests in the Managing Committee of the society and it has to meet at least once in every two months in case of national societies and central societies and at least once in every month in case of primary societies.

Attendance of members in weekly meetings has been made compulsory, in the by-laws of certain primary coops., such as, KSS, BSS, MSS & MBSS, for members.

Though there is provision in law for electing auditors from amongst members of the society to work as internal auditors, the system is yet to catch up except in cases of some national and central societies.

## **6. BUSINESS, MANAGEMENT AND WORKING OF SOCIETIES**

The main cooperative efforts in the agricultural sector of the country centre round the operation of the following major co-operative organisations:

- (1) Bangladesh National Cooperative Bank (Bangladesh Samabya Bank Ltd.) (BSBL)
- (2) Bangladesh Milk Producers Cooperative Union Ltd. (BMPCU)
- (3) Bangladesh Sambaya Marketing Society Ltd. (BSMS)
- (4) Cooperatives under the Bangladesh Rural Development Board (BRDB-Coops.).

Activities of these cooperative organisations being variegated in nature, extent and coverage particulars about their business, management and related activities are furnished hereinafter separately.

## **6.1. Bangladesh National Cooperative Bank Ltd. (BSBL)**

**6.1.1** On liberation of Bangladesh in the year 1971, the East Pakistan Provincial Cooperative Bank Ltd. was converted as the national apex cooperative bank viz. Bangladesh Sambaya Bank Ltd. with all the assets and liabilities of the former apex Bank. It had as its objects, interalia,-

- (i) to act as the apex cooperative financial institution of Bangladesh;
- (ii) to foster growth and development of cooperative societies on sound business principles;
- (iii) to co-ordinate and control the working of central and other cooperative societies.

The BSBL has a membership of 414 societies consisting of both central and primary societies. The relationship between the apex and the central, central and the primary and between the financing and the financed societies are governed by the provisions of cooperative law and the by-laws of the related societies.

**6.1.2.** One of the main functions of the BSBL is to procure funds and provide credit facilities to affiliates. The Bank at present borrows from the Bangladesh Bank, the Central Bank of the country, against 25% Govt. guarantee on repayment, for onward lending to the affiliated banks/societies, like Central Co-operative Banks (CCB), Land Mortgage Banks (LMB) Upazila Central Coop. Associations (USCAS). Loans are for short, medium and long term period and are reinvested by these societies to individual members through their respective primary cooperatives.

**6.1.3.** The BSBL is at present managed by a Committee of Management of five, appointed by the Government, headed by a Member of Parliament as the Chairman. The elected Committee of the Bank was superseded and replaced by an appointed Committee in July 1983 and since then the Bank is being managed by Committees appointed by the Government. The chief executive of the Bank is the General Manager, who at present is deputed by the Government. Of the two Deputy General Managers, one is a Government Officer deputed by the Government.

6.1.4. *Position of BSBL at a glance.*

The position of the BSBL at a glance as on 30.6.89 may be had from the particulars given below:

<i>(a) Resource base :</i>		(Taka in lacs)	
(i) Authorised share capital		Taka	1,000.00
(ii) Paid up share capital		“	295.90
(iii) Reserve Fund		“	2,542.00
(iv) Deposits		“	2,369.93
(v) Fixed Assets		“	30.00
<i>(b) Loan Disbursement &amp; Recovery</i>			
(i) Loans issued from inception to 30.6.89		“	37,068.12
(ii) Loans recoverable Principal : as on 30.6.89: Interest & Penal Interest:		“	32,740.30
		“	10,254.45
	Total	Taka	42,994.75
(iii) Loans recovered upto 30.6.89: Principal: Interest & Penal Interest:		Taka	28,091.07
		“	4,280.71
	Total	Taka	32,371.78
(iv) Percentage of recovery: Principal: Interest : Total :		“	86%
		“	42%
		“	75%
(v) Overdue loans as on 30.6.89:		“	10,622.97
<i>(c) Drawal &amp; Repayment of Loan from Bangladesh Bank.</i>			
(i) Loan drawing from Bangiadesh Bank from inception to 30.6.89:		“	35,414.70

(Taka in lacs)

(ii) Loan repaid to Bangladesh Bank upto 30.6.89:	“	31,229.93
(iii) Balance repayable and Bangladesh Bank as on 30.6.89:	“	5,633.33
(iv) Percentage of repayment:	“	88%

*(d) Drawal & Repayment of Loan to the Government.*

(i) Loan received from Government of Bangladesh from inception to 30.6.89:	“	35,414.70
(ii) Loans repaid to Government upto 30.6.89:	“	31,229.93
(iii) Balance Repayable to Government:	“	5,633.33
(iv) Percentage of repayment:	“	55%

*(e) Income.*

(i) Total income earned during 1988-89:	“	1,326.43
(ii) Total expenditure during 1988-89:	“	888.84
(iii) Total net income of the year 1988-89:	Taka	437.59

(In view of the heavy over dues loans, the income position does not really mean anything till the amount is realised)

*6.1.5. Loan Operation Position of the BSBL*

(a) The yearwise statement of credit operation of the BSBL; its disbursement, recoveries and overdues given below will provide an idea about the volume of business handled and about the state of affairs in the matter:

Year	Disbursement	Recoveries	(Taka in lacs)
			Overdues
1972-73	1425.21	1275.00	2198.85
1973-74	774.00	840.00	2435.42
1974-75	906.00	916.00	2397.68
1975-76	999.00	1166.00	2115.59

Year	Disbursement	Recoveries	(Taka in lacs)
			Overdues
1976-77	1118.00	1037.00	2279.45
1977-78	1582.00	1281.00	2291.80
1978-79	2011.00	1189.00	2675.05
1979-80	2703.67	1797.36	2992.30
1980-81	2763.94	1741.78	3860.79
1981-82	1858.29	2043.71	4180.29
1982-83	2295.02	2474.43	4383.60
1983-84	2197.96	1930.52	4609.24
1984-85	2883.68	2226.53	4917.59
1985-86	1399.02	2027.43	6495.87
1986-87	1704.90	2282.47	5115.75
1987-88	1396.89	968.77	4735.24
1988-89	1765.07	1061.88	4649.23

The BSBL is being burdened with overdue loans, year after year, due to defaults of its affiliates, bad investment and unsatisfactory recoveries caused mainly by wilful defaults, natural calamities and often by faulty government policies. The statement of aging of overdues, together with overdue interests, as on 30.6.88 (the same as on 30.6.89 not yet being drawn up by the Bank) is placed below:

(b) Aging of overdue	Period of years	Principal	(Taka in lacs)	
			Interest and penal interests	Total
1.	Overdue for less than 1 year	17.75	19.37	37.12
2.	Overdue for less than 2 years	167.52	85.38	152.90
3.	Overdue for less than 3 years	1137.46	711.72	1849.18
4.	Overdue for less than 4 years	681.00	557.41	1238.41
5.	Overdue for less than 5 years	363.73	431.92	795.65
6.	Overdue for 5 years and above	2367.88	3473.09	5840.97
	Total	4735.34	5278.87	10014.23



6.1.6. The BSBL could not disburse any loan during the current year of 1989-90 as it could not yet draw any loan from the Bangladesh Bank because of reported complications arising out of stringent terms of repayment imposed by the Bangladesh Bank and non-receipt of Government Guarantee for release of loans by the Bangladesh Bank. This has resulted in a deep crisis for the BSBL and its affiliates and negotiation in concerned quarters are in progress for resolving the same.

As for this state of affairs in respect of defaults and overdues, it is said on behalf of the BSBL and not without reason, that, part of the responsibility for this must be borne by the Government as well, for their policies--which sometime caused damage to the BSBL and its affiliates and which interalia, are, viz:

(i) Shift in government policies often resulted in withdrawal of even normal logistic government support and assistance to the BSBL Cooperatives for drawing loans for their farmer members;

(ii) Propensity of the Government to utilise the cooperative loans as development loans in the past, such as, under "Crash programme" in the early sixties and also later under other programmes.

(iii) Habitual inclination of the Governments to encourage increased allotments and issue of loans in flood, cyclone, draught effected areas in the past, even sometime relaxing repayment qualifications -- thereby undermining repayment discipline.

(iv) Lack of consistent Government policies, such as in its attitude to older cooperatives vis-a-vis IRDP/BRDB Co-operatives, raising uncertainty and misunderstanding in people's mind resulting in neglect of repayment of loans.

(v) Failure of the government to take effective measures for causing recovery of loans of the older cooperatives in the areas freshly covered by the IRDP/BRDB cooperatives, resulting extensive issue of overlapping loans and blocking of recovery of old loans.

(vi) Remittance of interest of pre-liberation and pre-partition loans at members' level without providing for remittance of resultant interest loss at other levels or providing compensation for the same, have resulted in defaults and loss.

(vii) Occasional declarations of the Government differing repayment of cooperative loans in areas affected by natural calamity, without taking appro-

ropriate measures, for repayment with interest of deferred amounts of loans at relevant levels, created burdens for cooperative at different tiers by precipitating defaults.

The BSBL is a national apex cooperative organisation but it is yet to build up a strong resource base of its own. It works under various constraints - arising out of the fact that it has to work under multiple control of the Cooperative Department, the Government of Bangladesh and the Bangladesh Bank-each having their own angles of visions and points of view, sometimes opposed to each other. The Bank has to submit to their controls as it is yet fully dependent on Government of Bangladesh for providing the guarantee to the Bangladesh Bank and to the Bangladesh Bank for providing the credit.

## 6.2. The Bangladesh Milk Producers' Cooperative Union (BMPCU)

6.2.1. The Bangladesh Milk Producers Cooperative Union Ltd. is a young organisation with a past. Established in 1965 as the Eastern Milk Producers Cooperative Union Ltd. it assumed its present name in 1976. It was created by Government with the twin objective of (i) organising village level primary milk producers cooperatives around Lahirimohanpur in Pabna -- a milk producing area and establishing a central federal Union of such societies and taking over the old dairy plant, installed there in 1946. Some 100 and odd number of village primary milk producers' cooperatives and a federal union of these at Dhaka were accordingly organised and registered. The Union took over in 1966 the Lahirimohanpur Plant with a capacity of 2000 litres per day. Another plant of 5000 litres per day capacity was also merged with it shortly thereafter. At present the Union has under it 258 village based primary societies. Individual members of primaries are village dwellers who own one or two cows and who deliver milk, twice daily, to the primaries from where it is transferred to processing plants. After chilling, milk is taken to Dhaka for processing, packaging and marketing as pasturised liquid milk, flavoured milk, ice-cream, powdered milk, butter and ghee. All products are sold through the Dhaka marketing unit under the brand name of 'Milk-Vita'.

Nature and daily capacities of the plants of the Union at 4 places are below:-

Place	Nature of plant	Capacities (in litres)
1	2	3
(1) Mirpur, Dhaka	Milk & Ice-cream processing	80,000

1	2	3
(2) Manikgonj	Chilling	10,000
(3) Faridpur	Pasteurization	25,000
(4) Bagabarighat (Serajgonj)	Milk Products Processing	50,000

6.2.2. The system has provided sale of milk twice daily, on cash basis round the year and freed the cooperative producers from the traditional clutches of the unscrupulous middlemen in the trade, but also generated in them self-confidence and confidence in the institutions created and managed by them. For milk production alone, job opportunities have been created for the idle and the under-employed manpower spread over 30.716 families in the milk-shed areas. Besides, other aspects of dairying have also created ancillary jobs relating to collection, transportation, processing and distribution of milk and milk products on one hand, and cattle feed, health hygiene, artificial insemination and manufacturing of accessories, on the other.

6.2.3. The number of member societies, individual members and milk collected from 1973-74 to 1988-89 are given below:-

Year	No. of Societies	No. of Members	Milk Collection (in litres)
1973-74	110	4,304	2,12,986
1974-75	132	4,984	36,30,990
1975-76	139	6,828	50,32,146
1976-77	162	9,887	84,83,094
1977-78	187	14,989	81,21,384
1978-79	195	17,725	82,28,237
1979-80	200	21,401	98,23,814
1980-81	220	23,308	58,06,258
1981-82	245	26,933	92,41,317
1982-83	266	30,716	1,01,18,337
1983-84	269	31,605	36,83,037
1984-85	270	31,885	44,35,603
1985-86	263	32,786	49,19,130
1986-87	258	33,788	70,05,709
1987-88	203	29,536	39,30,000
1988-89	210	28,476	30,56,000

(Decrease in milk collection in last two years is due to causes of natural calamities such as flood and draught.)

6.2.4. Quantities of products marketed by the Union are as follows:-

Year	Liquid Milk Lac litres	Butter lbs	Ghee Maund	Ice-cream (Litres)	Full Cream Milk Powder (Lac Lbs)	Flavoured Milk (Packet)
1974-75	19.85	885		Production not started	2.36	Production not started
1975-76	47.20	28,711	1,031	“	0.84	“
1976-77	58.22	74,921	510	“	1.57	“
1977-78	78.82	1,31,107	1,301	30,109	3.79	“
1978-79	69.98	1,36,113	711	61,395	4.82	“
1979-80	77.68	1,48,726	1,012	60,378	3.62	“
1980-81	102.03	1,70,123	497	72,608	3.74	9,965
1981-82	79.34	76,068	287	78,839	3.63	1,89,200
1982-83	78.82	1,53,152	1,334	79,533	4.07	2,54,014
1983-84	72.53	2,36,424	534	71,984	3.52	3,50,812
1984-85	61.05	1,56,993	92	55,243	0.22	3,75,465
1985-86	56.31	2,94,070	75	49,894	0.38	5,30,433
1986-87	53.08	3,29,855	219	42,254	0.74	7,10,016
					(Lac Kg.)	
1987-88	39.30	2,26,600	350	12,000	1.74	4,81,000
1988-89	30.56	2,81,600	270	66,000	0.09	11,39,000

6.2.5 The operation of the Union has induced progressively increasing trend in milk production resulting in availability of larger quantities of safe milk and other milk products in the market though it had its lean period also because of natural and other causes. Besides the exposure of producer-members to the knowledge and practice of such important aspects of dairying, such as, cattle health, hygiene, feed artificial insemination activities etc., had been creating an imperceptible but welcome attitudinal change of great significance for the larger modernisation effort in agriculture in the country. The Union estimates that cooperative efforts in the milk sector have provided an additional annual income of Tk.3000/- per head to its members and have also generated additional employment opportunities for about 2000 people.

6.2.6. The financial status of the BMPCU is however, unsatisfactory. It was born with prenatal financial loads of sizable dimension transmitted from its predecessors to the tune of about Tk. 100 lacs. Government and overseas loans which followed ran up to over Tk. 1500 lacs with current interest running

at over Tk. 600 lacs and depreciation at nearly Tk. 500 lacs. This was the handicap with which the BMPCU started the race. Overseas loans were for Dairy Plants and equipments received in two phases from Denmark. Total loans and grants received initially (including those inherited amounted to over Tk. 1600 lacs of which only 5% was grant money. From 1973-74 to 1987-88 the Unions suffered a total loss of Tk. 1,69,26,749/- of this Tk. 1,03,42,011/- was interest on loans and Tk. 17,70,027/- was on account of depreciation of machinery and buildings. Besides bearing of these losses, due to short supply of milk, the Union was unable to utilise the machineries and plants beyond 60% of its installed capacity, resulting in excessive overhead expenditure--making it difficult for it to earn even a small operational profit.

6.2.7. The BMPCU is at present managed by a Board of Directors (consisting of 9 directors) appointed by the Government, with one Member of Parliament as Chairman, one Deputy Secretary to the Government as Vice-Chairman, one Army Officer, five Govt. officials and one public representative, as Directors. The last Annual General Meeting was held on 9.4.86.

#### 6.2.8. *The primary milk societies.*

The position of the primary milk producers coop. societies, linked with the BMPCU for milk supply, by and large, appear satisfactory. They show a position of surplus in their business and they also pay patronage divided to members on the basis of milk delivered by them to the society. Quarterly Report of the Cooperative Dept. for the quarter ended 30.6.89 shows the following position of profit of 203 primary milk-producers co-operatives in their business done during last five years 1983-84 to 1987-88:-

Position of Net Profit(+) or Loss(-)

Year	(Total)	Taka	(in lacs)
1983-84	-	(+)	Taka 0.67
1984-85	-	(+)	" 3.84
1985-86	-	(+)	" 16.78
1986-87	-	(+)	" 14.49
1987-88	-	(+)	" 10.28

The primary societies were running at a profit all through. At the primary level, there is concern for diminishing pasture land due to increase in cultivation of various high-yielding varieties of rice and for receiving regular veterinary services. Primary societies also feel that the Union should have a much closer contact with each other for mutual benefit.

### 6.3 *Bangladesh Cooperative Marketing Society Ltd. (BSMS)*

6.3.1. The Bangladesh Cooperative Marketing Society is the apex body which was meant to serve the Union Coop. Multi-purpose Societies (UCMPS), Central Coop. M.P. Societies (CCMPS), Consumers Coop. Societies and others which could do business in related fields with it. It was set up in 1961 with the two objectives viz.:

- (a) to organise marketing of agricultural produce to ensure a fair and a reasonable price to the primary producers and;
- (b) to supply them with consumers commodities and production in-puts.

Initially the BSMS pursued both the objectives of marketing of agricultural produce and procurement and supply of consumers goods under two government development schemes in sixties and also later, in these two fields but could attain little success in any, mainly due to--

- (i) Lack of experience & professional know-how;
- (ii) Lack of management experience and skill.
- (iii) Inept supervision of business and of business credit.
- (iv) Lack of trained & experienced Managers, employees and staff.
- (v) Initiation of the business projects without preparing ground for them.
- (vi) Lack of facilities for professional training of the management leaders and staff.

6.3.2. The BSMS is at the top of three-tiered structure with CCMPSs as Secondaries and the UCMPS and other coops. at the base. The Society is managed by an elected Board of Management consisting of 12 members. The Chief Executive of the Society is an official of the rank of Joint Registrar of Cooperative Societies, deputed to the Society by the Government. He is assisted by 130 officers and other staff.

6.3.3. The membership of the Society was 2229 in the year 1986 of which 2068 were primary societies. After exclusion of the primary societies from membership of the apex the membership of the Society now stands at 156 only. The share capital of the Society is Taka 44.02 lacs and 98% of it has been contributed by the Government. For assisting its member societies and the agriculturists in their agricultural marketing operations the BSMS acquired certain

useful infrastructures. It built 5 cold storages in different parts of the country, 4 of which had capacity of 1000 tons each and one that of 400 tons. Of these, 3 are in operation, one lies idle, needing re-hauling and one is under a legal dispute regarding ownership.

The Society also acquired, through purchase, from the Government 4 big rice mills (one of which was a rice-cum-oil mill) together with such other assets as, godowns and lands; of these 3 mills are in operation. Because of various operational and managerial problems the society is unable to run the cold storages and rice mills profitably and is often faced with losses. The society at present runs a consumers store at Dhaka city and it has also undertaken a project for purchase and sale of agricultural produce in a neighbouring district not far from Dhaka.

#### 6.3.4. *The Stalemate*

The principal problem of the society is simply that it is unable to do the job it was set up to do, in spite of having in its possession various infrastructure and facilities. Drive and initiative needed to push the society headlong into action do not appear to come either from the management of the society or from the Government which owns 98% of its shares.

The financial position of the Society is not at all sound. The volume of business is too meagre to have any meaningful impact on its working. Bad investments in the shape of loans and deposits in unscheduled banks have brought the Society to its present state of stagnation. The overdrafts, drawn from time to time, for payment of its establishment charges and for strengthening business activities have created further drain on the Society's financial resources. The net loss suffered by the Society, as per its audited Balance Sheet as on 30.6.88 was (-) Tk. 25,78,141.98 and the loss had been mounting.

During sixties, Government under a development project for improving facilities for agricultural marketing assisted 635 UCMP. and 37 central M-P. Societies to build godowns in the rural areas to store agricultural produce and consumer commodities. Use of these godowns were also available for use by the BSMS, but it could not so far put them to any profitable use.

A thorough programme of rehabilitation for the BSMS, ensuring full utilisation of all infrastructure and facilities available to it, and also ensuring co-ordination of activities with central and other societies in relevant fields, is urgently required to be drawn up and executed to stop further wastage of its existing resources and facilities and to put the BSMS and its affiliates on their feet again to serve the agriculturists. The management of the society is

reported to have been actively considering such a programme.

#### 6.4. BRDB Co-operatives

The BRDB Cooperatives have since been expanded to cover practically the whole of the country, UCCAs having been formed in 450 upazilas out of the total of 495. The statistical report for the quarter ended 30th June, 1989 published by the Co-operative Department shows that the primary societies organised and registered by the BRDB was 78,087 with a total membership of 2.6 millions.

##### 6.4(A) The BRDB Primary Co-operatives

- (i) The progressive development since inception, of the primary societies, which are responsible for supply of credit, irrigation equipment, other needed inputs and facilities to all categories of farmers may be seen for the key indicators shown below for the year 1974-75 to 1988-89:-

ITEMS	POSITION AS ON 30TH JUNE					
	1975		1980		1989	
(a) Societies & their membership:						
(i) Total member of primary societies	17,691		39,629		78,087	
(ii) Total membership.	0.48million		1.29million		2.59million	
(iii) Average membership per society	27		33		34	
(b) Share Capital and Savings in relation to the loan outstanding and overdues	1975		1980		1989	
	Amount	%	Amount	%	Amount	%
	mill.		mill.		mill	
(i) Total share capital	11.31	9.5	40.45	8	227.51	9
(ii) Total savings	17.15	14.5	58.38	12	31.71	13.5
(iii) Total Loans outstanding.	90.15	76	395.58	80	1960.47	77.5
	100		100		100	



(c) Investment, Recoveries of Loans, outstanding dues and overdues.	1975 Amount mill.	1980 Amount mill.	1989 Amount mill.
(i) Total investment of loans	173.54	88.79	7708.88
(ii) Total loans recovered	83.12	490.20	5748.40
(iii) Loans outstanding	90.41	395.58	1960.47
Of which overdues	30.12 "	117.00 "	N/A
PC of overdues to total outstanding	29%	24%	N/A
(iv) Percentage of Recovery	47.90%	55.34%	74.57%

*Source:* BRDE Annual Reports & Statistical Quarterly Reports of Cooperative Department, June, 1989)

It needs to be mentioned here that primary societies include Farmers Cooperative Societies or the KSS, which constitute more than 80% of the primary societies and extend to their members an integrated package of services viz. mechanized irrigation (through DTW, STW & LLP) production credit and training. This has contributed to a good deal of expansion in agricultural production. Co-operatives also proved very useful in providing farmers access to irrigation and to joint management of the costly irrigation facilities.

(ii) There has been a gradual rise in membership but it had been mainly due to coverage of more upazilas than to any expansion in the societies themselves as, would be apparent from the very slow rate of increase in average membership. In 5 years from 1975 to 1980, the increase in average membership was 6 only and in 9 years for 1980 to 1989 it was only 1 (one). It appears that once registered, the societies made little attempt to increase their membership.

(iii) Share capital and savings of the societies also registered an increase but this was also mainly due to gradual increase in coverage of more upazilas than to any real and meaningful increase in the quantum of shares and savings of the primary societies. The increase in capital was no doubt satisfactory but the

corresponding overdue loans for the period almost nullifies the effect.

(iv) Recovery of loans does not reveal a very satisfactory position. Overdue loans pose a threat to the societies. The particulars of aging of overdue loans was not available either in the annual report of the BRDB or in statistical report of the Co-operative Department. The outstanding loan figures might consist of large amounts of disguised overdues.

(v) Consolidated national statistics regarding operation of primary societies showing how many of these are actively operating and how many of these are in a moribund state due to defaults etc. are not available. Classification of societies in respect of their operation and working are, as a rule, required to be made by the Audit Officers conducting annual statutory audit of the societies each year, but the practice do not appear to have been rigidly followed. Classifications were often not based on annual audit report. However, some idea about their operations may be obtained from the classification of societies made by the BRDB. According to this approximately 57% of the primary societies fall into categories of A & B as at the end of June, 1988, indicating that they roughly met the basic requirement of satisfactory operation of the societies in respect of loan repayment, share and saving contributions, holding members' meetings etc. The remaining 43% of the societies was classified in the ranges from C to E, meaning that these were moribund or badly managed. The operating primary societies, therefore, served about 1.49 million farmers out of 10.00 million farmer households in Bangladesh.

(vi) As for composition of these societies, studies conducted from time to time often revealed that these were composed of "relatively more affluent, educated and crafty" people got into the primary societies and also into their M.Cs, and dominated their management. They belonged to the rural power elite, who often used these societies for indulging in malpractices for selfish gains.

Supervision by higher authorities were inadequate, insufficient and often indulgent and collaborative. Domination, misuse of power and funds by the power elite, is one of the major problem at the primary level. Another problem is the lower level of education of the general run of the members of the M.C. General Meeting, weekly meetings and other meetings prescribed to gear up democratic process and to keep the members informed about the activities of the societies often proved to be mere paper work mechanical and ineffective due to indifferent participation and lack of interest of members.

(vii) Poor loan repayment have always remained a persistent problem with the cooperatives. In spite of the concept of supervised credit and all that goes

with it, the BRD co-operatives also appear to suffer from the same old ailments and weaknesses. The credit policy of the BRDB were often "vitiated by undue emphasis on volume of disbursement and lack of regard for credit discipline". It has often lost sight of that such a trend might seriously effect the very continuity of the credit system.

(viii) *Rural Poor Programme (RPP):BSS & MBSS*

Until early 1980's the IRDP cooperative activities were confined largely to agricultural cooperatives (the KSS), although some efforts were made earlier to form special primary cooperatives for women and landless people. It was since July 1983, that a Rural Poor Programme (RPP) was taken up by the BRDB. The objective was "to contribute to the generation of employment and earning capacity of the rural poor via provision of credit, training and technical assistance to specialised cooperatives for landless farmers and women". Under the RPP, organisation of the Bittahin Samabaya Samity (BSS) (assetless persons co-operatives for male) and Mohila Bittahin Samabaya Samity (MBSS) (assetless person' cooperatives for female) were started. Activities proposed to be assisted and financed under the RPP were crop, fruit and vegetable productions, livestock farming, fish cultivation rice processing and small business. Most BSS members take loans for agricultural activities, livestock purchase and small business while the MBSS members take loans mostly for cow and goat fattening and small business activities. A statement of operation and achievements of the RPP programme in organising BSS/MBSS is given below:-

Indicators	Year			
	1984-85	1985-86	1986-87	1987-88
Number of BSS/MBSS	10641	11647	12609	27578
Number of members	313432	334902	358076	708283
Amount of loan dis-bursed (Taka in mil.)	150.05	285.14	393.27	558.89
Amount recovered (Taka in million)	75.30	122.70	150.69	242.95
Savings and share deposits (Taka in million)	27.29	34.00	45.68	111.12

(Source : BRDB No. of societies include both registered and unregistered societies)

The BSS/MSS have an average of approximately 27 members, savings and share capital contribution averaging Taka 4,621/- per society and Taka 157/- per member. Average membership of MBSS (Womens Coops) is 29 per society and women members account for 45% of the total membership of the societies for assetless, and their average savings & share capital per society is Tk. 5,762/-.

(ix) BRDB also made efforts to push through the youth development programme through the BSS, MSS & MBSS and also through cooperatives for the poor youth under the RPP. Defining and identifying target group always presented problems. In the absence of strict measures to confine membership of these societies to poor women, poor and assetless persons/youth, these like the KSS, came to be dominated by persons/youth and women from well-to-do families. It was stated in an FAO report in this regard, that in case of BSS and MBSS "the majority of whose membership is illiterate the smart ones constitute the leadership. A class within the class appears to be developing in these new primary societies". At the initial stage when many MSS were converted into MBSS, the affluent and the non-target women, who had been exploiting the benefits of the cooperatives were not eliminated from membership or from the managerial positions.

*(x) Financial performance & viability of primary societies:*

Financial performance and prospect of viability of the BRDB primaries, the KSS, BSS, MSS, MBSS etc. inspite of years of operation yet remains a critical and a problematic issue. Judged on the basis of ratio between per capita share and savings on one hand and per capita disbursement and mounting overdues on the other, result appears discouraging and poor. Various review reports, particularly audit reports reveal that there was hardly any primary society which had earned enough realised profit to maintain its employees and to meet its obligatory operational costs. Attaining self-reliant and self-managed status was yet a far cry. Major factors affecting financial performance and viability, include, small size and low membership of the primaries, lack of prudent fund management, deterioration in credit discipline, absence of commercial approach to investment of funds and dual management control by the BRDB officials and the societies' authority.

*(xi) Larger primary societies -- Need of the time*

The present cooperative policy, which has resulted in having fragmented primary societies in the same village, perhaps, requires rethinking and re-consideration. If financial viability is the "sin qua non" for a cooperative, there is no other alternative then to have larger societies, combining resources

of all groups in a village to enable it to serve as an effective vehicle for improvement of the economic condition of the farmers and for over all village development.

#### **6.4(B) The BRDB Upazila Central Co-operative Associations.**

(a) In the BRD set up, the operation of the UCCAs was of cardinal importance in developing the cooperative infrastructure for the purpose of overall rural development. The object of the UCCA, as stated in the bye-law is "to promote service and support for the sound development of member cooperatives". The main functions of the UCCA were to build capital, provide credit, irrigation equipment, seeds, fertilizers, insecticides, marketing facilities, training and other needed services to the farmers and villages dwellers in general, through their primary affiliates, the KSS, and thus enhance their productivity and earning capacities for the development of rural economy. Later when it was found that the KSS was being increasingly dominated by the rich farmers and local power-elite, efforts were first started from 1975-76 to segregate womens' activities, through programme for development of the disadvantaged women through MSS, and then in 1983-84 under the Rural Poor Programme, the activities of the assetless men and assetless women were segregated through BSS and MBSS respectively.

#### **(b) Funds and Financing.**

The programme of activities of the UCCAs and their affiliates the KSS, MSS, BSS and MBSS besides dispensations of credit, were of multi-sectoral objectives, and these programmes had been executed under various projects funded by different international agencies. The revenue expenses for operating the BRDB establishment at the greater districts and the upazilas were however, met from the grants-in-aid given from the Government exchequer and from the year 1985-86, the entire BRDB budget has been included in the revenue budget of the Government. An idea as to the total annual revenue expenses incurred by the Government on account of BRDB establishments at the upazila and district levels, (including part of Government share of foreign aided project assistance costs) for last four years may be had from the following:-

Year	Total costs incurred by the BRDB	Number of projects under implementation
1984-85	Taka 325.36 million	12
1985-86	" 494.16 "	15

Year	Total costs incurred by the BRDB	Number of projects under implementation
1986-87	“ 525.60 “	16
1987-88	“ 720.00 “	12
Total Taka 2065.12 millions		(Source : BRDB)

The total cost of Taka 720.00 millions incurred during the year 1987-88, besides, project assistance costs, included pay and allowance of 1080 key personnel of the UCCA and 169 officers and 244 other staff at the district BRDB Office, 41 Officers and Staff at the training institute and grants-in-aid to the National Rural Development Cooperative Federation.

(c) *Management of the UCCA.*

(i) Studies show that the elected Managing Committee works under various constraints. The Upazila Rural Development Officer (URDO) deputed and paid by the BRDB works as the ex-office Chief Executive Officer or the Secretary of the UCCA, and is responsible for day to day management of the UCCA. He is supposed to work under the general control of the M.C. and he is also to work under the Project Director of BRDB. The M.C. however, has no real means to control the URDO. The M.C. in fact, has very limited powers. It approves and sanctions only such routine matters in the meetings as are placed before them by the URDO. Policy guidelines are formulated by the BRDB hierarchy at higher levels and the M.C. has to conform to them. The M.C. can hardly take up and decide any important matter on its own. As such non-official management leaders are yet to emerge in the UCCAs in general. There are, of course, cases also, where office-bearers and members of the M.C., in collusion, with the officials, grabbing good amounts of loan money and defaulting repayment, thereby affecting sound management.

(ii) Poor motivation and morale of UCCA employees because of the poor salary they get, (particularly compared to the BRDB paid employees) is a problem. These employees are vital extension workers and they act as linch pin between the UCCA and their primaries. (As a matter of fact when these reports were being written, all the employees of the UCCAs throughout the country were on strike almost deadlocking the activities of the UCCA.)

(d) *Main Activities of the UCCA.*

(i) *Administration of credit:*

Administration of short and medium term credit is by far the most important function of the UCCA, for that matter, of the BRDB itself, compared to its other activities. Nationally, the UCCA play an important, although not a major role in disbursement of institutional credit. The main problem of credit programme being the low rate of recovery of loans.

There has been almost continuous decline in recovery of loans. In 1986-87 approximately 100 UCCAs became disqualified from drawing further loans for defaults. Since then the situation has improved considerably due to remission of interest by the government.

In 17 years from 1971-72 to 1987-88 the UCCAs disbursed a short term loan of Tk. 5061.11 million and recovered Tk. 3635.00 million, the cumulative percentage of recovery being 72%. As for term loan since its introduction in 1984-85 in 4 years, a total of Tk.1366.00 million was disbursed. The recovery made was Tk. 287.90 million, the cumulative p.c. of recovery being 21% only. The cumulative p.c. of recovery could not be deemed satisfactory. As a matter of fact, the p.c. of cumulative recovery of loan of the other cooperative system, the BSBL (or the Dept.) coops. were 75% and above. In many cases, as also in the cases of cooperatives outside the orbit of BRDB, major portion of credit was appropriated by the affluent committee members of the primaries and secondaries or the centrals, from whom recovery often became difficult. In spite of staff support and the project facilities, the management of credit by the UCCAs had been unsatisfactory. The trend of capital formation in the UCCAs compared to their, rather, increasing liability to financing bank may be evident from the following position statement of the UCCAs of the country:-

Components	1973-74 %	1979-80 %	1985-86 %	1988-89 %
Share	10.1	9.0	7.2	8.9
Deposits	11.7	11.8	9.7	11.9
Reserve fund	3.1	3.2	2.6	4.2
Loans outstanding	75.1	76.0	80.5	75.0
Total	100.0	100.0	100.0	100.0

Shares show a decreasing trend. Deposits show no substantial rise. The position appears stagnant in spite of substantial increase in membership both at the primary and secondary levels. Outstanding loan have registered a little decrease during the last year. The UCCA, with all assistance and facilities at its disposal should have fared better.

*(ii) The Irrigation Management Programme (IMP):*

The UCCAs rendered quite substantial services in popularising irrigation equipment in the country. Upto June, 1988 the UCCAs launched 8426 IMP schemes in their areas of operation and sold 8410 DTWS, 38,238 STWs, 2975 LLP and 222,683 HTW to KSSs. Major problems in the area of irrigation development have been low recovery rates of terms loan issued for purchase of equipments, absence of adequate maintenance and use of equipments for purposes other than irrigation and agriculture.

*(iii) Fertilizer and Farm input supply:*

During early seventies cooperative were given exclusive rights to distribute fertilizers in their respective areas of operation. Fertilizer marketing therefore contributed significantly to the revenue of the UCCAs and they accounted for nearly 50% of the fertilizer trade. Since then there has been a continuous decline and with the change in Government policy in 1979 privatising the retail trade of fertilizers, the percentage of UCCA share in fertilizer trade has presently come down to less than one percent. Unfair trading practices of the private dealers are also blamed by the cooperatives for the decline.

*(iv) Marketing of Agricultural Produce:*

Marketing of agricultural produce was started by some UCCAs from mid seventies. During 1979-80 out of 45 UCCAs handling agricultural marketing 12 UCCAs incurred loss and the remaining 33 earned profit around Taka 11,000/- each. During 1984-88 20 UCCAs purchased agricultural produce and made a profit of about Taka 2.5 millions. Upto 1987-88, 216 UCCAs owned godowns but only about 35 out of these could take up marketing of agricultural produce. About 55 UCCAs purchased rice milling machineries but only a small number out of them could make profitable use of these milling machines purchased for diversification of their business.



(e) **Financial viability of the UCCA:**

As regards financial viability of the UCCAs the Study on Co-operatives in Bangladesh, conducted in 1988 under the auspices of the UNDP/World Bank made the following observations, which appear to convey a correct assessment of the situation :-

"Financial viability" can be defined as:-

- (i) Ability of a UCCA to meet from its own sources of income, the expenditure incurred on a year to year basis and;
- (ii) The ability of UCCA to meet its liabilities when they fell due.

There is probably no UCCA that is financially viable in the sense that it would be able to cover all its operating expenditure from internally generated income and make adequate provisions for bad debt arising from loan operations. The later aspects i.e. the ability to make provisions, and ultimately write off unrecoverable loans was crucial. Few UCCAs have consistent loan recovery rates anywhere nearer to 100 percent. As long as this situation prevails, it will be next to impossible to make the UCCA financially viable."

## **7. EDUCATION TRAINING AND GUIDANCE FOR CO-OPERATIVES IN THE COUNTRY**

Members of the agricultural cooperatives, persons engaged in these co-operatives need two kinds of education and training particularly on the theoretical, practical and professional aspects of the following two fields of instruction:

- (i) on principles and practices of cooperation,
- (ii) on modern agricultural practices, innovations and professional skill.

The categories of people requiring the education and training broadly are :-

- (i) the members of the cooperatives;
- (ii) the management leaders, officials and office bearers of the cooperatives;
- (iii) government and the BRDB officials supervising the work of the cooperatives;
- (iv) employees of the cooperatives of various levels.

7.1. No worthwhile exercise or elaborate survey to ascertain what composite type of training with syllabi composed of co-operative as well as agriculture items, would be needed and where such training would be available, methodologies to be used, and assistance of which technical training institutes would be needed, do not yet appear to have been made. No authentic particulars covering the totality of the country position is also available for designing and programming of such training. It is however, presumed that there are about 5.3 million members of the agricultural societies of whom about 800 thousand were members of the Managing Committee, about eight thousand officials of the R.C.S. and the BRDB and about 70 thousand paid employees of the cooperatives, who would need some kind of a training for which elaborate planning is required to be made after conducting necessary surveys. Though cooperative training is a pre-condition for being a member of a cooperative, only an infinitesimal portion of them have received institutional or other training due to inadequacies of funds and facilities.

**7.2. Cooperative education and training are imparted by the following institutions, agencies and cooperatives:-**

- (1) Bangladesh Cooperative College (BCC),
- (2) Eight Cooperative Zonal Institutes (ECZI),
- (3) One Rural Development Training Institute (RDTI),
- (4) 64 Cooperative Paripatetic Units (CPU),
- (5) 20 Upazila Training Units (UTU),
- (6) 448 Upazila Training & Development Centres (UTDC),
- (7) Bangladesh National Cooperative Union (BJSU),
- (8) Bangladesh National Rural Development Coop. Federation Ltd. (BJPUSF)

The Education and Training activity of both the streams of the cooperatives, appear not to have received due importance and priority it deserved. Most of these training institutions and units suffer for want of adequate allocation of funds for their efficient functioning. They mostly suffer for want of various physical facilities. There is lack of trained teachers for the specialised subjects taught in the institutions nor there is any regular system of training of teachers. There are also no hard and fast rules for recruitment of qualified teachers for the specific subjects taught in the institutions. There is lack of even elementary teaching aids. There is also no system of exposing teachers to research in the relevant fields and to practical field experience. Above all, the syllabi followed were drawn up years back in early eighties and needed updating to include current trends and problems. These syllabi gave more stress on class room lectures and deliberations on theoretical aspect of cooperative principles and management, rather than on problematic and action oriented issues relating to on-the-job or skill training of trainees.

7.3. Most of all, none of the present training institutions were specifically nanned or equipped to conduct meaningful training for persons engaged in running the agricultural cooperatives, nor agricultural subjects were included in the faculty of the training institutions. Cooperatives in Bangladesh, being predominantly engaged in the agricultural sector, the training institutions should be appropriately re-organised to accommodate training in agricultural subjects both in the theory, as well as, practice.

7.4. There are two other national apex cooperative organisations which look after the extension, training and education needs of their affiliates, the Bangladesh National Cooperative Union Ltd. (BJSU) and the Bangladesh National Rural Development Cooperative Federation Ltd. (BJFUSF). The BJSU besides looking after extension, training and member education needs of the co-operative movement also works as its mouthpiece. It is mainly funded by its members and receive no regular Government grants or aids. The BJPUSF is sponsored by the BRDB and is run with its grants and aids. It acts as a liasion with different agencies to cater to the needs of the UCCA. Both the BJSU and the BJPUSF are members of the International Cooperative Alliance (ICA).

## 8. THE CO-OPERATIVE SYSTEM

8.1. The Cooperative Societies Ordinance of 1984 and the Co-operative Societies Rules of 1987 form the legal framework on which the cooperative system of the country is based and on which the cooperatives operate. The fundamental right of cooperative ownership has been granted by the Constitution of the country. The bye-laws of the cooperatives of all sectors also reflect the universally accepted principles of cooperation as formulated by the I.C.A. A cooperative society in Bangladesh is an autonomous unit, its supreme authority vesting in the General Body of its members, which elects the Managing Committee (M.C.) and its office bearers. The M.C. with its office bearers are responsible for conducting the day to day business of the society and are answerable to the general meeting for the same.

8.2. The Registrar Cooperative Societies is the Head of the Co-operative Department. He is responsible for registration of co-operative societies, for supervising, controlling and regulating the functions of the cooperative societies through annual audits, periodical inspections, enquiries when warranted and through other actions provided in the law. He has also been vested with quasi-judicial powers for adjudication of disputes arising out of various activities of co-operative societies and also in respect of loans from members. The registrar excercises his powers and functions himself and through a network

sub-ordinate officials and staff at the Divisional, District and Upazila levels as shown in the organogram of the cooperative Dept. shown in the following page as ANNEXURE-'B'.

### **8.3. Certain Powers of the Registrar and the Government.**

8.3.1. The law has empowered the Registrar and the Government to exercise certain overriding powers in respect of management of cooperative societies, particularly with regard to the co-operatives enjoying Government assistance in some form or other:

(i) The Registrar/Government has powers to supersede and dissolve elected Managing Committee of a society and replace it with an appointed M.C. if as a result of an audit, inspection or enquiry the Registrar/Government is satisfied that it had mismanaged its affairs or the society is suffering from insolvency. In so doing the Registrar/Government could disqualify any member of the M.C. from holding any office in the society and could also take other penal actions.

(ii) When the M.C. of a Society has been dissolved and replaced by an appointed M.C. the final authority of the society vests in the Government, and the General Meeting of the society becomes incompetent to interfere in the work of the appointed committee.

(iii) The law further provides that where government after an enquiry, is satisfied that any member of the M.C. of a society is abusing his position, or is acting in a manner prejudicial to the interest of the society, it could remove him from membership of the M.C. and also disqualify him from holding any office in the society for a period not exceeding 5 years.

(iv) It has also been laid down that in case of coop. societies enjoying direct government assistance or government guaranteed or sponsored loan from internal or external sources, the society was obliged to accept the services of a Government servant or a person vetted by the government to act as its Chief Executive or Principal Officer, to oversee the utilisation of assistance or loan thus provided. It is further stipulated that in the event of a difference of opinion between the Chief Executive or Principal Officer of the Society with the M.C., the matter shall be referred to the Registrar/Government whose decision in the matter shall be final.

(v) The law also provides that when government involvement in the capital of the Society, by way of paid up shares, advances or loans given or guaranteed, is more than 50%, the Government/Registrar could nominate one third of the



members of the M.C. of the Society.

(vi) Registrar is the final authority in respect of registration and winding up of cooperative societies.

(vii) Registrar has also been vested with powers to control borrowings, lendings and investment of funds of the cooperative societies.

(viii) Registrar is responsible for audit of accounts of all the cooperative societies.

8.3.2. Some of these provisions particularly those mentioned at (i), (ii), (iii) and (iv) above do not quite conform to the democratic principles or norms of cooperation. Government contention in favour of their intervention in the management of cooperatives, is said to be for the security of government funds involved in more than 80% of the cooperative societies of the country, (of both the systems) whose working capital consist of either of direct Government, Government guaranteed, Government sponsored loans to the tune of 70% to 80%. While co-operators appear to think that such interventions are a hindrance to the growth of self-reliant and independent cooperatives, Government holds that such interventions are necessary for maintaining financial discipline in the cooperatives where members' financial involvement or risk is only nominal. This is a vicious circle which can only be broken through emergence of financially strong cooperatives lead by determined and dedicated leadership.

## 9. CO-OPERATIVE INSURANCE- ITS NATIONALISATION

There are no regulation restricting cooperatives from entering any business area now. Restriction, however, arise from the lack of adequate resources at the disposal of the cooperatives. No financial management standard has also been fixed for co-operatives entering business, except those prescribed, from time to time, for agricultural credit cooperatives by the Bangladesh Bank. Formerly in 1962, East Pakistan Cooperative Insurance Society Ltd. entered insurance field and soon became one of the leading insurance companies of the country. By 1964, out of 34 insurance companies in East Pakistan it ranked third in earning profit, fourth in respect of transfer of reserve and sixth in respect of general premiums earned. This most important co-operative organisation, which was, contemplating to provide coverage for crops and livestock of the farmers and which besides, building up its

own imposing insurance business also built its own imposing building in the heart of the commercial area of Dhaka, through a mistaken move was nationalised and taken over by the then Government after liberation, in 1972, in violation of the provision of the Constitution of Bangladesh. Thus a very promising source of capital for cooperative enterprises within the movement, was lost. Cooperatives, have entered the insurance field again in 1984, but it had to start again from the very scratch as its former assets etc. taken over by the Government in 1972, have not yet been returned to it, in spite of persistent demands.

## 10. AUDITING SYSTEM

The Registrar has the responsibility of conducting audit of accounts of a cooperative society once in each year. The audit officer may be an officer of the Cooperative Department or any other qualified person specially designated by the Registrar for the purpose. The annual audit is to be conducted and report thereon submitted within 9 months from the date of close of the year. If the accounts are not written upto date the Registrar or the Audit officer has the power to get the accounts written up at the society's cost. The managing committee of a society, on receipt of audit report from the audit officers, is to remedy the defects and irregularities pointed out in the report and submit a rectification report on the action, taken by it, on the audit report to the Registrar. The audit report and the rectification report thereon is also required to be placed by the M.C. before the Annual General Meeting for its consideration. In case of any serious irregularity, such as, misuse or misappropriation of funds etc. coming to light, the M.C. is required to take appropriate legal follow up action in the court of law or in the alternative Registrar may also initiate necessary remedial follow up action.

## 11. INTERNATIONAL COLLABORATION

Besides various Government to Government support for co-operative development in Bangladesh, most of the aid giving agencies such as, the UNDP, World Bank, ILO, ICA, FAO USAID, IDACA, DANIDA, CIDA, SIDA etc. had been in some way or other supporting and sustaining cooperative efforts in Bangladesh, particularly in the fields of agricultural production and rural development through direct financial assistance, loans, project financing, education and training support, holding seminars, workshops and other logistic support. But it would appear at users end, that application of these aids and assistance were often lopsided and were not available to cooperatives of the

same kind in both the streams. These assistance could perhaps have been more effectively and evenly distributed among cooperatives of both the streams based on assessment of their needs and quality of their performances. The Government and a consortium of concerned aid giving agencies could perhaps join together to conduct a survey, take a stock of the needs of cooperatives of both the streams-the BRDB and the Departmental Cooperatives, assess them in close collaboration with representatives of the concerned cooperatives and channel the assistance accordingly, on a more broad-based national programme.

## **12. PROBLEMS AND TASKS OF AGRICULTURAL CO-OPERATIVES**

### **12.1. Small size and low membership of primary societies.**

12.1.1 Primary societies are the based on which the whole structure of agricultural cooperatives are built but these suffer from various weaknesses and deficiencies which stem from their small size and low membership. The national average membership is 49. For BRDB primaries it is 33 and for the Department primaries it is 86, the Department primaries (except their KSS) usually having larger areas of operation. Another alarming feature of the situation is that membership in many societies of both the streams, have remained static for years, which may be due to unwillingness of an inert or a vested-interest group to share the benefits of the society with others. The minimum number of 10 members prescribed in the law to register a cooperative also contribute to keep the membership low. Because of its small size the primary society is-

- unable to do sizable business to earn profit,
- can hardly diversify its business,
- cannot employ paid professional staff to look after its business and,
- is unable to meet its obligatory charges out of its revenue income and therefore suffers persistent loss.

12.1.2. The way out appears to be in increasing the membership in the existing societies and/or enlarging the area of operation of the societies and/or through merger or amalgamation of activities with appropriate societies of the neighbouring area. The existing Rules regarding merger and amalgamation of societies may be simplified to make the amalgamation process easier and less time-consuming for the societies to follow. The prescribed minimum of members needed for registration of a society may also be raised from 10 (ten)



to a suitable higher number.

## **12.2. Domination of Rural Power-elite in the management of co-operatives.**

12.2.1. Relatively “more affluent, educated and crafty” people, belonging to power-elite, often get into primary societies and also into their management and dominate their activities. They misuse powers, with indulgence or collaboration of local officers and appropriate lion’s share of loanable and other funds of the society for themselves and their co-horts thus depriving other members. This is one of the major and a common problem with the societies, which later creates problems of defaults and recoveries.

12.2.2. Concerted and persistent members’ resistance against such practices, coupled with support from higher official authorities and rigid enforcement of penal provisions of law against misuse of powers and funds may gradually reduce and ultimately eliminate recurrence of such problems. Elimination of the pernicious influences of rural power elite is a must for proper growth and development of cooperatives.

## **12.3. Poor Financial Performance of the Primary Societies.**

12.3.1 Reports of studies, surveys and audits, conducted from time to time, reveal that financial performance and prospect of viability, on the basis of ratio between per capita share and savings and per capita outstanding and overdue liabilities on the other, of more than 40 to 50% of the primary societies of both the streams of cooperative, are precariously poor. Most of them are running at a loss and have not been able to earn any realised profit. Several factors affect financial performance and viability, including interalia, lack of prudent investment, proper credit discipline, minimal size of business and lack of commercial approach to business.

12.3.2 As a considerably large section of the agricultural co-operative are in such a sorry state of affairs, a properly co-ordinated action programme of rehabilitation is needed to be designed, drawn up and organised by the Government, the BRDB, concerned apex Cooperatives and other agencies involved and jointly implemented with due rigidity for bringing about an over all improvement in matters of financial management and viability. If in the process, any policy change on the part of the Government is warranted, the same may be given due consideration. As persistent loss in the primary societies have caused considerable damage already, any complacency or failure to repair the damage may cause further and greater damage to the societies not only in terms of assets, but more importantly in terms of confidence of the people.

#### **12.4. Primary Agricultural Cooperatives at the village level with overlapping area of operation.**

12.4.1 At present there are in the same areas and in the same village, more than one agricultural society for providing same set of services, for example, the UCMP, KSS, BSS etc. sponsored both by the Coop. Dept. and the BRDB. This is a duplication of efforts, which affects the financial viability of all societies providing similar services in the same area. It is not a satisfactory arrangement. The recent "Study on Co-operatives in Bangladesh" held in 1988, observed in this connection that--

"The Cooperative Movement (in Bangladesh) will remain weak as long as it is based on the present fragmented primary society structure. Larger societies, combining the resources of all groups in a village, would be necessary to enable them to develop into effective vehicles for village development".

12.4.2 The Study, however, recognised the utility of sponsoring separate primary societies for assetless women (MBSS) and assetless men (BSS) as "a short-term measure" to raise their economic condition with the ultimate objective of enabling them to join the larger village primary society, whose business would be sizeable enough to earn profit and be viable. For the present this would be worth while, may be, even an inescapable objective to work for. Ultimately, in course of years, with sustained efforts, yet larger primary society may be achieved, at the Union level which with a far larger membership, would be able to diversify its business earn larger profit, employ paid professional manager and multiply its services to its members.

#### **12.5. Poor Loan Recovery Performance.**

12.5.1 Poor loan repayment by the members has been a chronic problem with cooperatives of both the streams, often resulting in blocking or delaying the processing of loans at various levels. In spite of concepts of supervised credit and recovery through group pressures, the actual supervision of loan at the stages of processing, issue and utilisation was mostly perfunctory and superficial resulting in poor recovery. Credit policy also tended to be vitiated by undue emphasis on the volume of credit disbursement, often without regard for credit discipline. The matter was further compounded by predominance of defaults of loans by members of the Managing Committees and the affluent members of the Cooperatives. As a matter of facts the latest statistics of the Coop. Dept. as on 30.6.89 reveal that a total of 1838 members of the M.C. of the central & primary societies (1027 of the Dept. Coops & 811 of the BRDB Coops.) were removed from their offices for defaulting loans. Loans or interest thereon due by members of cooperatives are often remitted by the

Government in various areas on grounds of natural calamities etc. (even without providing for compensation). Such remissions undermine repayment discipline of members and seriously affect recovery of loans not only in those particular areas but also in other areas as well.

12.5.2 Satisfactory recovery of loans is very much linked up with efficient management of the cooperatives and proper and timely investment of loans. At present though the loans issued by the cooperatives are all supposed to be "supervised credit", the real element of supervision goes by default, when, due to casual and perfunctory verification of loan application and other documents, the loans get chances to furnish false and incorrect information about properties offered as collateral. This enables the loanees to dodge repayment without risk to their properties. Neither the primary societies nor the central financing societies have any systematic arrangement for supervision of end-use of loans granted to individual members and it is usually left to be done by fellow members or members of M.C. of the same society. Remedy lies in making efforts to develop large primary societies with sizable membership, which could pay for employment of trained hands to scrutinize loan documentation and to supervise end-use of loans issued to members.

## **12.6. Credit orientation of the primary societies - a limiting factor.**

12.6.1 Primary agricultural cooperatives of Bangladesh had been traditionally and historically engrossed mainly in credit operations. Apart from it the UCMPS, KSS & other agri primaries had also been engaged in providing irrigation facilities, and marketing and consumers goods supply services, here and there, to members, in a rather nominal scale. Their potential to diversify business activities was restricted by lack of capital, as well as, management capabilities. Both the limiting factors arise from their low membership, small area of operation and level of activities, which makes most primary societies unable to generate sufficient capital for investment as well as to pay for employment of trained staff to manage business.

12.6.2 Remedy lies in making determined efforts to increase the size, area of operation and membership of the society, so that a sizable capital base may be built up through gradual merger or amalgamation of present fragmented primary societies of the adjoining areas.

12.6.3 There are in many areas, primary societies which had been running at a loss persistently for years and have proved to be non-viable either due to small size of their business, inertia of their members, or for other reasons. In case of such societies, Government, after due scrutiny and after providing the concerned societies opportunity of being heard, ask them either to merge with any

other society of the adjacent area or wound up its business.

### **12.7 The Unification of the Departmental and the BRDB Co-operative System.**

Two parallel systems of cooperatives - the Departmental and the BRDB Cooperative Systems, are operating side by side in the agriculture sector resulting in duplication of efforts causing wastage of scarce financial and human resources. Efforts were made for bringing the two systems together on a rational and mutually acceptable basis, each to work as supplementary and complementary to each other but somehow, this has not succeeded so far. Nevertheless, the crying need of the hour and the most reasonable thing to do, under the circumstances, is to devise an agreed solution to the problem without injuring or endangering whatever self-reliant growth and development any cooperative might have attained so far. Without going into the details of the problem, which have for years stalled the process of the two systems coming together, it may be suggested that the leaders of the movement -- officials and non-official, may devise a rough & ready, yet just and even handed 'modus operandi' of working together, so as to ensure maximum utilisation of resources and stopping of wastages and duplications.

### **12.8 Needs for Practical and Professional Training for Farmers.**

Farmers need knowledge and practical training for use of modern agricultural equipments and machinery, new methods of production, use of fertilisers, insecticide and other innovations. Primary Societies and even the UCCA, the Central Banks/Societies are often unable to provide these services to the farmers. The relevant Government Departments, the Coop., the BRDB, the relevant apex and central coop. organisations should jointly devise ways and means to make the requisite services available to the farmer members of the primary societies, if necessary, with the help of aid giving international agencies. In the present state of development of the cooperatives of the country, the task of training the farmers should devolve on the Government, who would arrange it through its relevant Departments, institutions and agencies.

### **12.9 Need for Development of Land Mortgage Banks**

12.9.1 The percentage of landless farmer in the country is said to be about 56.5% and the rate is reported to be fast increasing. The Land Mortgage Banks (LMB), which were introduced in the country during the depression of thirties, to stop alienation of lands from farmers, have the potentials for reducing the distress sale of lands by the farmers, because of present economic

stress and strain. Farmers, instead of selling out their meagre holdings, could mortgage the same to LMB raise funds, to use it for some productive calling and at the same time, cultivate his mortgaged land. The LMB, therefore, not only saves a farmer being landless, it also helps him to earn some additional income.

12.9.2 At present there are 53 Land Mortgage Banks mostly at the District HQs. Their loan recovery performance is one of the best among the agricultural credit cooperatives. Number of LMB may be increased to cover all the Upazilas gradually, to tackle the problem of increasing landlessness among farmers in the country. The LMBs are also required to be organisationally strengthened and provided with adequate financial accommodation to meet their needs.

12.9.3 A national apex LMB was organised and registered sometime back but it has not yet been allowed to, and provided with necessary logistic support, to operate as national apex LMB on account of bottlenecks. The apex LMB need to be activated, allowed to function and provided with necessary logistic support, as it would certainly meet a felt need of the movement and also serve a national purpose.

#### **12.10 Maintaining of Accounts of the Primary Societies.**

Maintaining accounts at the Primary Societies' level often present problems, as these are not always regularly and properly maintained. In departmental primary societies accounts are usually written by the secretaries of the respective societies. In the BRDB primaries, the accounts are written by village Accountants, who are engaged by the UCCA, and each village Accountant is entrusted with writing of account of several KSS, BSS etc. of the same or adjacent area. It is often found that the accounts are not written upto date and fall into arrears, resulting in delays in conducting audits, both in case of Dept. Coops. and the BRDB Coops. This is a serious lapse which sometime, covers misuse and mis-appropriation funds. Remedy lies in regular monitoring of the work of the village Accountants and the secretaries by the authorised officers of the UCCA and the Coop. Department.

#### **12.11 Need for building up owned capital by both the coop. systems.**

12.11.1 Both the Departmental Coops. and the BRDB Coops. are yet fully dependent on finance from outside for their agricultural credit and other operations. Their owned capital compared to their borrowed capital is too small to be of any significance. Major portion of the establishment other costs of the BRDB CCA, are met from the grants-in-aid and subsidies provided by

the Government and external donor agencies. It was expected that various assistances provided to the cooperatives would help them to attain self-reliance in course of a few years, but this has not happened. Grants and subsidies provided, have made them yet more dependent on external support. Cooperatives are nothing, if they are not self-reliant and have forever to depend on external grants and aids.

12.11.2. The greatest need of the hour for the cooperatives is, therefore, to vigorously conduct campaign for mobilisation of financial resources from within the society and the movement, by increasing membership, issue of more share to the existing members and procuring more savings and deposits and also through profitable business. For success of such a campaign members sense of belonging to the society and his interest and involvement in the management of the society has to be ensured by all means.

#### **12.12 Need for strengthening the Bangladesh National Co-operative Bank- the BSBL.**

12.12.1 The BSBL is the Apex Cooperative Credit Institution of the country with a tradition of service over five decades, particularly in providing agricultural credit to the farmers through its affiliates. Till the year 1977 it was the only source of short term institutional credit for the farmers in the country. At the moment the Bank is passing through a critical phase due to default of its affiliates, such as the Central Coop. Banks and other Central Societies, over the management of which it has practically no legal control. The main problem of the BSBL is its weak resource base. It cannot invest loans without borrowing from the Bangladesh Bank and such borrowing has to be backed up by a 25% Government guarantee for repayment. The BSBL has also other deficiencies. It receives an interest margin of only 1.5% for the Bangladesh Bank loans channelled by it, which is hardly adequate to cover the cost of administration of credit including the cost of its recovery from the farmers. It can hardly afford to employ adequate staff to supervise its loan operation.

12.12.2 With its weak capital structure, poor liquidity position, weakness in credit management, strict loan eligibility criteria prescribed by the Bangladesh Bank, growing recovery problems leading to shrinkage in investment, and failure of the Government to offer a helping hand, the BSBL and its affiliates have been moving towards a serious crisis for itself and for the Dept. Cooperatives in the agricultural sector and their members.

12.12.3 To improve its financial soundness for enabling it to operate as a Central Bank for the cooperatives, the capital structure of the BSBL has to be substantially strengthened. Its management capabilities are also required to

be strengthened through appropriate training to its existing staff and recruitment of additional professional hands. May be, the BSBL could be made to operate as a Scheduled Bank with branches, its own supervising staff and extension service to serve the needs of the cooperative movement, including the BRDB Cooperatives. As a matter of fact, it is learnt that the Government is actively considering a proposal to thoroughly re-organise the BSBL, strengthen its resource base, improve its working and develop it as a full fledged Commercial Bank, so that it may serve the movement in a better and a more efficient manner.

#### 12.12.4 *The Central Cooperative Banks :*

There are 73 Central Cooperative Banks which are the major affiliates of the BSBL at the secondary level and the main channel of dispensation of agricultural credit to the primary societies, such as, UCMPs, KSS etc. Most of the CCBS, organised early in 2nd and 3rd decade of the present century are older than the BSBL and are engaged in agricultural credit dispensation for more than 60 to 70 years. Most of the CCBs possess lands, buildings and considerable assets in the District and Upazila HQs. Having been linked up with BSBL in agricultural credit dispensation, for decades, their fate and future have also become linked up with those of the BSBL. The CCBS working in the same field have mostly the same handicaps as the BSBL. It is essential that in the future shape of things to be drawn up for the BSBL, provision shall also be made for re-organisation of business of the CCBS.

#### 12.13 **Persistent Loss Suffered by the National Coop. Milk Producers Unions (BCMPU)**

Primary village milk societies had been working with profit and self-reliantly, with no financial support either from the BCMPU or any project and had been regularly distributing patronage refunds to members. The BCMPU itself, however, had been running at a loss for the last 15 years, due to its inability to utilise the plants beyond 60% of their installed capacity, because of short supply of milk and rising overhead expenditure. It had suffered a cumulative loss of Tk. 16.00 million upto the year 1987-88. The plants, machineries, infrastructure and other requisite facilities were there; and yet somehow the Government and the BCMPU authorities who had been guiding the affairs of the BCMPU, over the years, have not yet been able to put these to a profitable use. Government has however, appointed a high level Committee recently to examine over and again the whole situation and to suggest ways and means for bringing about an improvement in the working of the BCMPU, which is one of the most promising of the Cooperatives in the country.

#### **12.14 The Bangladesh Cooperative Marketing Society (BSMS) and its marketing and other experiments.**

The Bangladesh Cooperative Marketing Society Ltd. (BSMS) was organised to function as an apex society to assist its affiliates in marketing of agricultural produce and in supplying of consumer goods. Over the years it conducted several experiments on both the counts of its functions but so far failed to achieve any worth-while results in any, mainly because of-

- (i) lack of efficient leadership;
- (ii) lack of business know-how and experience;
- (iii) lack of management experience;
- (iv) failure to ensure honest handling of business;
- (v) lack of internal and external co-ordination of business;

The Society also failed to profitably utilise valuable cold-storages and rice mills acquired by it, at great costs at different parts of the country. The audit report of the BSMS revealed that it had been saddled with a net cumulative loss of Tk. 2.5 million upto the year 1987-88; and continued idleness is pushing the loss up every hour.

A scheme for rehabilitation of the business activities of the BSMS is reported to be under the consideration of the society and the appropriate Departmental authorities. There can be no higher priority for the BSMS than to shake off its inertia and set its business management apparatus in order and in full gear.



# **THE BADARKHALI CO-OPERATIVE AGRICULTURAL AND COLONISATION SOCIETY - A SUCCESS STORY**

## **INTRODUCTION**

1.1. The story of the Badarkhali Cooperative Agriculture & Colonisation Society (a Primary Society) is the story of struggle for survival of a group of distressed but hardworking and enterprising farmers of southern-most part of Bangladesh in Cox's Bazar area. They were landless and homeless farmers, being rendered so during the Depression of Thirties, through hard economic circumstances, oppression of landlords, perfidy and deception of money lenders. These scattered people were roaming about, here and there, in search of livelihood, succor and shelter. At last, inspired by some altruistic civil servants and officials of Cooperative Department, a movement was started to organise a cooperative society for their rehabilitation. As a result of this movement, Government in August, 1928, allotted the whole area of Badarkhali mauja, an area of 3910 acres (seven miles in length and 1 1/2 miles in breadth), of uninhabited compact coastal forest area, washed by salty water of Bay of Bengal, for organising a cooperative agricultural and colonisation society.

1.2. In view of the very hard and arduous nature of tasks presented to the prospective members of the society, in launching the work of the society, such as, clearing the forest area, making it fit for habitation as well as cultivation and protecting it from salty waters and depredations of the sea, many shied away. It was also not an easy task to select right type of persons for membership from among applicants. It thus took about a year to select the members and to complete all formalities for organisation and registration of the society. The society was registered and launched early in the year 1930 with an initial membership of 262 members with the whole of Badarkhali mauja (village) as its area of operation. To begin with, the pioneering members had little to look forward immediately, in this desolate area, except sweat, toil, hard work and ceaseless struggle against hostile forces of nature, in the forest and the sea. Solid embankment had to be put up to keep the salty waters away and forest had to be cleared to make the land habitable and cultivable, so that they could eke out their livelihood, together with the members of their family, in those environs. For facility of work the entire area of operation of the society was

divided into 3 Blocks. The pioneers were at work with courage and fortitude, and over the years, in spite of occasional set-backs and failures, succeeded in putting up a secure embankment and bringing a major portion of allocated land under cultivation. Each member was allotted 10 acres of land each for use and cultivation by him and members of his family. This was not saleable or transferable but was inheritable by legal successors as per laws of succession. The entire cadastral areas of Badarkhali mauja (village) was granted settlement by the Government in the name of the society, as such, all lands in the area of operation of the society belonged to it. It is thus a cooperative society with a difference. Initially considering the sacrifice and hard work of the pioneering members, Government remitted land revenue for the whole settlement for first 7 to 10 years. It was a gracious and a helpful gesture, at the time, but in terms of sacrifices made by the members and in terms of generation of future source of revenue for the Government it was not much.

## **2. Improvement effected**

2.1. The area of the society was secured by an embankment 13 miles long, along the sea coast. The entire area of operation of the society was brought under use and cultivation. A six (6) mile long irrigation canal was also dug across the area of the society for irrigating 2000 acres of land for IRRI paddy cultivation. The society, in order to diversify its business, has since gone into production of salt in about 1000 acres of its land. The society has also gone into shrimp cultivation business by launching shrimp production and sweet water storage projects. For its shrimp projects it has also been taking annual lease of several hundred acres of land, out-side its area of operation. Though the society has shown outstanding result in agricultural production, it is yet to show equal proficiency in the management of its business.

## **3. Self-sufficiency in food production attained**

3.1. The area of operation of society is self-sufficient in food production. It also sells paddy in large quantities to outside buyers. The society maintains a "dharma gola" or a storage pool of 2500 maunds, for emergency in case of any shortage of food grains in the area. The boost in production has resulted from introduction of modern agricultural implements and modern methods of cultivation introduced by the society. About 2500 acres of land is now capable of producing 3 paddy crops including Boro in a year. The society has an abundance of fish wealth both in its inland as well as coastal sources. Livestock and poultry wealth of members of the society have also shown a considerable healthy increase. In recent years agricultural production in the society has registered almost a three fold increase. In spite of their non-acquittance or indifference to the benefits of family planning, the members are as yet leading

an easy life, whereas they could live, even, a far easier life, had they been less prolific. Original membership of the society was 262, each in possession of 10 acres of land. Now in 1989, the membership is 966, coming from about 3086 families which have a total of about 30,000 mouths to feed. Unless the members of society take conscious and firm steps for family planning the balance may be tipped against them very soon.

#### **4. Public utility services and educational facilities provided**

4.1. The Pioneers of the society did not join it so much as to earn profit as to organise and provide the much needed services to the members. The tradition lives on. The society sets apart every year income from 200 acres of land for public utility services, such as, for roads drainage etc. of the area. The society was instrumental in getting the area connected with electricity, telegraph and telephone. The society subsidises the running of the Local Post Office, houses it, pays the salary of the Post Master and the other staff. The society is trying to develop Badarkhali as an ideal village. It established a High School in the years 1945 and had been granting it annual subsidy for its smooth running. It also established one High Madrasa, One Hefz Khana, 20 'Maktabs' (Islamic Primary School), and one Public Library and 15 Jameh mosques in the village. The society has also allowed a Nationalised Commercial Bank to open a branch in its area.

It established one (1) charitable dispensary and 6 primary schools, which were later taken over by the Government for running them. 12 tanks were also dug by the society at different places in the village for use by the people.

4.2. Bye-laws of the society makes education compulsory for the sons, and daughters and wards of the ages from 7-12, of members of the society. The society also provides interest free long-term education loan for meritorious children or wards, of poor members of the society, who prosecute higher studies in colleges or Universities.

4.3. In view of the facilities provided by the percentage of literacy and percentage of persons with comparatively higher education are much higher in Badarkhali than in other villages of the neighbouring area, in spite of the fact that Badarkhali is situated in an interior and inaccessible part of the country. In view of the developments achieved the village of Badarkhali has since been upgraded to the status of an Union, by the Government.

## **5. Management of the affairs of the society**

5.1. Management of the affairs of the society is conducted by an elected Board of Management of 12 members, which is responsible for its activities to the Annual General Meeting of the general body of members. The general meeting also elects the Chairman, Vice-Chairman, Treasurer and the Secretary of the society. The Secretary is the Chief Executive of the society.

## **6. Settlement of disputes among members of the society**

6.1. The society has an elected Conciliation Board which arbitrates in all disputes arising between the members in any matter and the system is in vogue from the very inception of the society. As per bye-law of the society, it constitutes an offence for a member to refer any dispute between the members, to any Civil or Criminal Court without the knowledge of the society. As a result, the local Civil and Criminal Courts have almost no cases in their Courts from the area of the society. The society always discourages members from going to the Courts.

## **7. Financial position of society**

7.1. The society though a primary society, has no outside loan or liability. The society at no time received any loans or advances from any other Cooperative Society Government or from any other source. The society was also at no time applicant or recipient of any aid, subsidy or grant from any source to run any of its business or affairs. It had been a self-reliant society, always standing on its own feet and for that matter it had been a society with a difference. As per latest Cooperative Departmental Statistics, the working capital of the society is about Tk. 10.00 million of which share capital is about Tk. 0.11 million. Its liquid assets consist of about Tk. 16.00 million. What is more important about the society is not its financial results, but the services it had rendered, the contribution it has made to the general well being and prosperity of its members and the people of Badarkhali in general and its future potentials of service for the both.

## **8. A problem of the society**

8.1. It appears, the members of the society were not very mindful about the necessity of family planning. The society was launched by 262 pioneers. In founding habitation in Badarkhali village, they were joined approximately, by about 786 more persons, calculating @ 3 persons per family of pioneers. The total population of the village therefore, in 1930 the year of start was about 1048. The population of the village is, at present, reported to be about 30,000

or more. It is no longer possible for the society to sustain the population increase much longer without substantially pushing down the standard of living of the population and letting various other problems to surface. The society has a possible solution of the problem in sight. There has been an accretion of "char" land of about 1142 acres by the adjoining sea-shore, which is reported to be within the revenue area of Badarkhali Mouza, which was given in settlement to the society in 1930. The society was applicant to the Revenue Department of the Government to allow settlement of said accrued area to the society. The society is trying hard, but it appears that there are yet hurdles before it can have the new area settled in its favour.

## **9. The epilogue**

This is what we may call, the success story of a group of roaming destitute farmers, who through cooperative efforts and on the basis of pure self-help and mutual aid, transformed an uninhabited forest area into a prosperous village and a vast granary; and also achieved for themselves and their progeny, a prosperous and a secure future. In 60 years of its existence, it passed through many vicissitudes of time. During 1942-43 the society was very close to the Burmese War Front. It suffered through influx of refugees from Burma, through boat demial and scorched earth policies of the retreating British Army. It also suffered due to disturbances and troubles during the Partition of India & Bengal in 1947; and during the War of Liberation in 1971. The society and its members, however, bore all these with courage and held their own with fortitude, inspite of losses, which were often greivous and heavy. All the time the society behaved as a nascent cooperative democracy; members equitably sharing all its trials and travails as well as its prosperity. The pioneers of the society held fast to this way and to this spirit. They are gone now. Their second and third generations are now at work. They, it appears, understand and recognize the wisdom of holding fast to the good old ways and to the good old spirit, but the world around them are changing fast.

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# **Present Situation, Problems and Future Tasks of Agricultural Cooperatives in India**

## **1. HISTORY OF COOPERATION**

1.1 The worst and the best in man comes out when he is placed in adverse circumstances. The same is, perhaps true of societies as well. The Cooperation movement, which had its genesis in adversity, is based on some of the noblest values man could ever apply to business organisations. It seeks to apply morality to business, a business in which persons voluntarily join together on the basis of equality. It does not differentiate one person from another on the basis of their share holding in the cooperative venture. The democratic control, the voluntary and open membership, the desire to help each other and emphasis on all round development of the members are some of the basic principles of cooperation which reflect higher values of mankind.

1.2 The Cooperation Movement, as we understand it today, seems to have originated in England. It was born at a time when large number of traditional artisans and agriculturists had to suddenly face unemployment or exploitation at the hands of industrialists or due to farm mechanisation as a consequence of the industrial revolution during the eighteenth and nineteenth centuries. The working classes were not prepared for such rapid changes and they suddenly found themselves at a disadvantageous position. This resulted in a lot of turmoil and hardship and finally the circumstances threw up enlightened leadership like Robert Owen. He was moved by their plight. He thought that human beings were basically good and that it was the duty of well off segments of society to help the poor people to improve their lot through their own efforts. Being an industrialist, he first experimented with his ideas in his own factory and introduced reforms like reduced hours of work, increased wages, abolition of child labour and providing housing facilities to the workers. Later on he organised workers to start their own production of goods and market the same through 'Labour Exchanges'.

1.3 Even before Owen, efforts were made to organise cooperatives and the first cooperative flour mill was set up by the Dockyard workers of Woolwick



and Chatham as early as 1760. However, these efforts did not succeed until 1844 when 28 weavers set up the "Rochdale Equitable Pioneers Society" which was registered under the Friendly Societies' Act. This was the first Cooperative venture in U.K. which was successful and which exists even now. Over the years it has enlarged its activities including membership.

1.4 When we look at the Cooperative Movement of Germany, we find somewhat similar circumstances in which this movement was born in that country. The exploitation by the money lenders in the German society coupled with the recurring famines made the plight of working classes and the agriculturists miserable. Like Owen in England, the adverse circumstances in Germany threw up leadership like W.F. Raiffeisen and Herman Schulze. Schulze, a judge and a Mayor, founded his first society of shoemakers in 1849 and again in 1850 he founded his first credit society to raise funds to be lent to its members. He further developed his credit society into a Cooperative Bank and was also instrumental in bringing about the first cooperative law in Germany. Similarly, Raiffeisen, who first set up smaller ventures like bakery and committees for distribution of food and credit to poor people, subsequently was also instrumental in organising credit societies.

1.5 The genesis of Cooperative Movement in other countries has similar background although the specific circumstances may differ. The organisational set up and the role of the State also differs substantially from one politico-economic system to another.

1.6 When we look at the history of Indian Cooperation movement, we find that Cooperation, as a principle, existed in Indian society from time immemorial. When banking was not developed there existed guilds consisting of traders who helped each other for furthering their own commercial interests. Similarly, the village community in India practiced principles of Cooperation without giving it any practical organisational shape during time of necessity, particularly on occasions when families needed additional financial support like marriages, illness, natural calamities, etc.

1.7 The pre-independent India was primarily a feudal society. The feudal lords were, by and large, landlords with large land holdings who exercised considerable political influence as well. They were the middlemen between the ruling kings or the British rulers and the masses. They alongwith the rulers mercilessly exploited the farmers and the working classes.

1.8 India's economy was largely an agricultural economy and agricultural production was largely dependent on 'monsoons' which were not always favourable. Large parts of India were subjected to recurrent droughts. The

actual land being cultivated by each family was quite limited and the agricultural operations were carried out in a primitive manner. Quite often, there was total failure of crops and the rural community had to resort to taking consumption loans from the money lenders. The money lenders charged exorbitant interest and once the family was indebted to him it found it extremely difficult to come out of his clutches in subsequent years even when the season was good. The money lenders also became the traders and quite often would buy the standing crops at nominal price. Over a period of time, there developed a nexus between the money lenders and the land lords who exploited the farmers to no end. The land lord also went on increasing the rent for the land which practically left no surplus with the farmers and quite often he could not even produce enough to pay the rent.

1.9 The exploitation of the rural community did not result in any serious development mainly because bulk of the rural population was illiterate and the communications were also not developed. Moreover, Government took note of the miseries of farmers who sporadically rose in open hostility, particularly in some districts in Maharashtra. The provincial government did think of encouraging setting up of credit institutions on the lines of the European banks of the Raiffeisen type in the cooperative sector. Efforts were also made in the states of Uttar Pradesh and Bengal to set up credit societies.

1.10 The first agricultural bank was set up in Bombay province in 1882. The Agricultural Loans Act was passed in 1884 under which the agriculturists could borrow public money for production purposes at lower rates of interest. A successful cooperative society in Hoshiarpur district of Punjab was formed in 1892. Similarly, in 1901, NIDHIS were created in Uttar Pradesh and Bengal which turned into credit societies on cooperative principles.

1.11 Seeing this sporadic development and considering the need for giving a direction to the cooperative movement in India the Government of India appointed a special committee under the Chairmanship of Sir Edward Law to go into the possibilities of setting up cooperative institutions for credit purposes in India. On the recommendations of this Committee the Cooperative Credit Societies Act 1904 was enacted, which can officially be termed as the beginning of organised cooperative era in India. The Act provided for the setting up of primary credit societies which were allowed to advance agricultural credit. Under the Act, the credit societies were expected to be small and simple in their complexion, meant for small and simple people with simple needs, requiring small sums only. Under this Act, the societies were classified as rural and urban. The rural societies were to have limited liability and could not pay any dividend. All profits were to be carried to reserve funds. There was also no provision for the organisation of central institutions.

1.12 The Indian Cooperative Movement has seen many stages of development which can be broadly grouped as follows :

- i) First stage - (1904 - 1912)
- ii) Second stage - (1912 - 1919)
- iii) Third stage - (1919 - 1929)
- iv) Fourth stage - (1929 - 1939)
- v) Fifth stage - (1939 - 1947)
- vi) Sixth stage - Post-Independence Period.

#### 1.12.1 *First Stage - (1904 - 1912)*

As mentioned earlier, the Cooperative Movement formally took its birth in India with the passing of the Cooperative Credit Societies Act 1904. We can, therefore, say that it was the credit need of the agriculture sector which was first sought to be met through the cooperative structure in India. However, we find that the movement was neither motivated by the farmers nor had any enlightened leadership which could motivate the farmers to join voluntarily to form such credit societies. It was mainly a Government sponsored activity with targets being given to Government functionaries for setting up a fixed number of societies with certain targetted membership and loans to be advanced. It thus became another programme of the Government though under the garb of Cooperatives. Bulk of the resources of these credit societies came from the Government. No effort was made either to train the paid functionaries of the societies or to educate the farmers in the principles of Cooperation. There were considerable delays in sanctioning of loans and recovering the same. These Societies also did not cater to the other needs of the farmers like requirement of funds for other purposes like buying of cattle, bullocks or marriages etc., and, therefore, could not wean away the farmers from the traditional money lenders. However, inspite of all these drawbacks it did succeed in throwing up some leadership who became active forerunners in the Cooperation field. Some of the prominent names of this era are Mr. Lallubhai Samal Dass, Sir Vithal Das Thakur and Shri Gopal Krishan Gokhale of the then Bombay presidency (now Maharashtra State). Shri Lallubhai Samal Dass set up the first a cooperative bank in Bombay in 1911. Another prominent name of this era is Mr. Chiromule, who was instrumental in organising a society of 20 sweepers in Satara in Maharashtra. The other prominent names of this period are Mr. Govind T. Kulkarni and Ram Das Pantulu of Madras.

#### 1.12.2 *Second Stage (1912 - 1919)*

1.12.2.1 During the short span of about 7 to 8 years the shortcomings of the Act of 1904 came into sharp focus and the Government, therefore, brought

about a new act in 1912. Through this Act the scope of the cooperative societies was expanded enabling non-credit societies also to be registered. It also enabled the classification of societies on the basis of their liability into unlimited. The new Act also provided for dividends to be given to investors as it was considered that without this motivation people may not join the cooperation movement voluntarily. The Act also enabled the registration of central societies. Through the earlier phase as well as during this phase the Government, though committed to encourage Cooperatives, was cautious which is evident from the Government of India resolution of 17th June 1914 which observed : “ The future is full of promises .....with increased non-official aid and supervision, some rapid progress may be expected, but the caution and restraint shown in the past should continue”.

1.12.2.2 In 1915, Government of India appointed Mac Lagan Committee to review the Movement. It cautioned the Government against rapid expansion in setting up of societies and stressed the need for audit and supervision of the society through the Cooperation Department officials of the Government. It also recommended that more emphasis should be given to the mobilisation of deposits by these societies.

1.12.2.3 During this phase central banks were established which delinked the primary societies from the Government as earlier they were getting their loans from it. For the first time a multipurpose society was started in Kodinar area. The Movement also got a very active support from Mahatma Gandhi, the Father of the Nation, when he was involved in the struggle for India's independence. Another important Cooperator of this time was Shri B.V.L. Mehta, who lent great support to the idea of cooperative education and training. During this period, a number of other cooperative societies were set up in different parts of the country. The progress in setting up of cooperatives was quite rapid during this phase and there were 28,000 societies with 1.1 million members and Rs.150 million as working capital in 1919 as compared to 8,177 societies with 0.4 million membership and a working capital of Rs. 33.5 million in 1912.

### 1.12.3 *Third stage (1919 - 1929)*

The subject of Cooperation was transferred from the Central Government to the State Governments under the reforms of 1919. The States were then free to enact their own cooperative laws and the old Bombay Presidency gave a lead to it by passing the Bombay Cooperative Societies Act in 1925 incorporating therein provisions suitable to local conditions. Many State Governments also set up committees and commissions to look into the functioning of the cooperative movement. The Royal Commission of Agriculture was also

set up during this period which brought out the strengths and weaknesses of the movement, The Royal Commission on Agriculture, however, stressed the point that cooperation movement should not be allowed to fail as 'the failure will amount to the failure of the best hope of rural India.' This period further saw a rapid progress in the expansion of cooperative societies which further rose to 94,000 societies with 3.7 million membership and Rs. 750 million as working capital by 1929.

#### 1.12.4 *Fourth Stage (1929 - 1939)*

1.12.4.1 A major economic depression set in the world in 1929. There was all round fall in prices and farmer could not get adequate returns from his agricultural produce. He, therefore, could not repay the loans he had taken from the cooperative societies. This resulted in heavy overdues mounting in large number of societies in Punjab and the old Bombay Presidency. In these states, a large number of societies were liquidated during this period. By 1939 about 93% of loans became overdue.

1.12.4.2 The farmers started raising huge loans by mortgaging their lands as security. With a view to saving the farmers from being exploited by the unscrupulous money lenders, 'Land Mortgage Banks' were started on cooperative basis. The first Central Land Mortgage Bank was established in Madras in 1929. Similarly, such banks came into existence with their branches at the primary level in Maharashtra. This helped in quite a few farmers in saving their land from passing over to the hands of the money lenders.

1.12.4.3 During this phase, the Reserve Bank of India (RBI) was set up in 1935 with a department for Agricultural Credit in it. In 1937, this Department of the Reserve Bank of India submitted a report on the cooperative movement and suggested a general reorganisation of the Movement on sound lines.

#### 1.12.5 *Fifth Stage (1939 - 1947)*

1.12.5.1 With the start of the Second World War in 1939, prices started rising and with this the movement also got a fillip. The societies could clear most of their dues accumulated during the depression of early 1930s. This, however, had an adverse impact on the functioning of the cooperative banks, particularly the land mortgage banks as the demands from the farmers for funds went on decreasing and these banks were left with the problem of surplus funds. The deposits in primary societies also increased substantially during this period (Rs. 250 million in 1939-40 to Rs. 540 million in 1945-46).

1.12.5.2 Another important development during this period was the diversification of the cooperative movement which had remained primarily a credit movement for agriculture sector. Many items during the Second World War became scarce and came under the controlled prices and distribution. Many cooperative societies were set up for handling such controlled commodities to save the ordinary consumer from being exploited by the unscrupulous elements. It was also for the first time during this period that a national level cooperative planning committee was set up which drew up plans for the development of cooperative movement in various spheres. It fixed specific targets for covering certain percentage of villages and population under its fold. It also fixed targets for marketing of agricultural produce through cooperative marketing societies.

#### 1.12.6 *Sixth Stage - Cooperation in the Post-independence period.*

1.12.6.1 After independence in 1947, India embarked on its developmental effort through planned economy. It chose for itself, a secular and socialistic pattern of society with a democratic government based on adult franchise. India is a federation of states with the states having their own elected governments.

1.12.6.2 India is currently in the last year of its Seventh Five Year Plan (the first Five Year Plan stated in 1950). The process of planning is based on the policy of mixed economy in which private as well as public sectors play important roles. The cooperative sector also has been given its due place in India in its Five Year Plans. The First Five Year Plan (1950-51 to 1955-56) stated the role of Cooperation in these words :

“In regime of planned development Cooperation is an instrument which, while retaining some of the advantages of decentralisation and local initiative, will yet serve willingly and readily the overall purposes of targets of the Plan”.

1.12.6.3 During this period (1954) the RBI, for the first time, carried out Rural Credit Survey in the country. While it observed that the Cooperation had failed but it also emphasised that it must succeed. It also assessed for the first time the rural credit need in the country which was placed at Rs. 750 million per year. It, *inter-alia*, recommended the following :

- i) ensuring state partnership in cooperatives;
- ii) establishing of a national level bank which should extend its activities more and more in rural areas with preference to cooperative institutions and creation of various funds like the National Agricultural Credit (Long Term Operations) Fund and the National Agricultural Credit

(Stabilisation) Fund. Both these funds have since been transferred to National Bank for Agricultural and Rural Development (NABARD). Besides these funds the Government of India also created a National Cooperative Development Fund which was placed at the disposal of the National Cooperative Development Corporation (NCDC). It also recommended that both the officials and non-officials working in the cooperative movement should be properly trained.

1.12.6.4 The subsequent Five Year Plans also laid great emphasis on the need to further strengthen the cooperative movement. The Plan provided specific funds for the development of cooperatives, primarily in the agriculture sector. Separate funds were earmarked exclusively for the cooperatives of the backward classes.

1.12.6.5 The Government of India recommended radical reforms in November, 1958 in the pattern of organisation of societies at village level. The policy of organising large sized societies was given up and a scheme of service cooperatives as primary unit with the objective of helping the members to increase their agricultural production was introduced. The concept of linking credit with marketing was also emphasised.

1.12.6.6 The need for increasing agricultural production and rural development was increasingly felt in the successive Plan periods which culminated in the setting up of the NABARD in 1982 during the Sixth Five Year Plan period (1980-85). The Cooperation Movement continued to receive adequate support in the successive Five Year Plans and the strategy to develop the cooperatives during the current Seventh Five Year Plan has been :

- i) Comprehensive development of primary agricultural credit societies to function as multipurpose viable units :
- ii) Realignment of policies and procedures of cooperatives to expand the flow of credit and ensure supply of inputs and services, particularly to the weaker sections;
- iii) Taking up special cooperative programmes for implementation in under-developed States;
- iv) Strengthening the consumer movement to play an effective role in public distribution system; and
- v) Promoting professional management and strengthening training facilities.

1.12.6.7 The Cooperation Movement is likely to be further strengthened in the Eighth Five Year Plan (1990-91 to 1994-95) as there is greater emphasis on more and more decentralisation of economic activities, particularly in the rural areas.

1.12.6.8 The complexion of Cooperation Movement has undergone a very substantial change in the post-independent India. It has become diversified in its activities with world's largest membership (0.35 million societies having 1500 million membership with a working capital of about Rs. 4,800 billion). A number of important commodity cooperatives have come into existence like milk, oilseeds, spinning, fisheries, sugar, poultry etc. Some of these cooperatives have been organised on very sound footing and command substantial share in the market. However, a large number of cooperatives are still struggling to survive.

1.12.6.9 The Government has continued to play a very active and significant role in the development and promotion of cooperatives in the country as was the case in the pre-independent era. The Government has also continued to control the affairs of the cooperatives to a large extent, primarily because of substantial investments made by it.

1.12.6.10 The post-independence era has also seen emergence of reasonably good leadership in the Cooperation Movement but unfortunately the Cooperation leadership has not been able to divest itself from political ambitions and quite often it has been used as a stepping stone for the active cooperators to jump into political arena, be it at the village, district, state or national level.

1.12.6.11 The post-independence era has also seen setting up of specialised institutions for development and promotion of cooperatives like NCDC and National Dairy Development Board (NDDB).

1.12.6.12 During this period, a large number of national level federations have also been set up such as:

- i) National Cooperative Union of India (NCUI)
- ii) National Agricultural Cooperative Marketing Federation of India (NAFED)
- iii) National Cooperative Consumers' Federation (NCCF)



- iv) National Federation of Industrial Cooperatives (NFIC)
- v) National Cooperative Land Development Banks Federation (NCSLDBF)
- vi) National Federation of Cooperative Sugar Factories (NFCSF)
- vii) National Federation of State Cooperative Banks (NFSCB)
- viii) All India Federation of Cooperative Spinning Mills (AIFCOSPIN)
- ix) National Cooperative Housing Federation (NCHF)
- x) National Cooperative Dairy Federation of India (NCDFI)
- xi) National Federation of Labour Cooperatives (NFLC)
- xii) National Federation of Fishermen's Cooperatives (FISHCOPFED)
- xiii) National Federation of Urban Cooperative Banks and Credit Society (NFCUB)
- xiv) National Cooperative Tobacco Growers Federations (TOBACCOFED)

1.12.6.13 Besides the country's own resources, special schemes for development of cooperatives have also been implemented in the post-independence era with the help of external agencies like the European Economic Community (EEC), International Development Agency (IDA), World Bank, World Food Programme (WFP), Cooperative League of USA (CLUSA) and a number of other agencies.

1.12.6.14 Another feature of this era has been setting up of multi-state cooperative societies with large processing facilities like, Indian Farmers Fertilizer Cooperative Ltd. (IFFCO) and Krishak Bharti Cooperative Ltd. (KRIBHCO) which have some of the largest fertilizer plants in the world.

1.12.6.15 The Cooperation Movement has not caught the imagination of all the States of India equally. In fact, the level of development of Cooperation Movement differs very substantially from one State to another. The States of Maharashtra and Gujarat are the forerunners in the Cooperation Movement and have achieved creditable level of development. It has also developed to a considerable extent in the States of Andhra Pradesh, Haryana, Karnataka, Kerala, Madhya Pradesh, Punjab, Tamil Nadu and Uttar Pradesh. However, the rest of the States in the country are still to develop this Movement to any

appreciable extent.

1.13.1 The entire Cooperation Movement in the country is guided by two sets of legislation, namely : (i) the Multi State Cooperative Societies' Act; which is a Central Act and all the multi-state cooperative societies are registered under the provisions of this Act; and (ii) the State Cooperative Societies Act, which is generally based on the model guidelines issued by the federal government but enacted and operated by the respective state governments in the country. The state level cooperative societies are registered and operated in accordance with the provisions of this Act. Thus, there is a clear distinction between the two types of societies.

1.13.2 At the national level, there is a Central Registrar who is responsible for the enforcement of the provisions of the Multi State Cooperative Societies Act and similarly, at the state level, there is a Registrar of Cooperative Societies (RCS) for each state who is responsible for the implementation of the State Cooperative Act. Both these functionaries are supported by the required staff.

## **2. PRESENT STATUS OF DIFFERENT SECTORS**

### **2.1 Cooperative Credit**

2.1.1 Rural indebtedness in India has since long been a bane of the rural economy. Small cultivators and other rural people are placed in circumstances that they must out of necessity, borrow. As land holdings on an average are small and the cultivators, have been unable to keep pace with new scientific methods of cultivation, agriculture has not been a paying profession for the growers and they could not have any surplus to lay by. The foremost problem of rural economy was thus its indebtedness and attention was paid to its removal. In fact the cooperative movement was introduced in India almost solely for the purpose of eradicating this evil. The Rural credit societies were the first to start and still hold a very important place in the system of the country.

2.1.2 The Agricultural Credit Societies were set up with the passing of the Cooperative Credit Societies' Act 1904, on Raiffeisen model with unlimited liability and a small area of operation covering generally only one village. The main object of the societies was to raise funds to be lent to the members and to promote the spirit of self-help and thrift.

2.1.3 The Royal Commission on Agriculture in 1928, concluded that the Credit society has proved easy to be managed; its principles are readily understood; the requirements are within the capacity of the villager to provide; and it has done a lot to inculcate the values of self-help. In the meantime, some experiments were made in the Kodinar Taluka of the former Baroda State by Shri Manilal B. Nanavati the then RCS with what are known as multi-purpose societies. The societies were aimed at “better farming, better business and better living”. They supplied not only credit needs of members but also arrangements to distribute the wherewithal of agriculture, to collect the produce of the members and to help them in its processing and marketing. The Agricultural Credit Department of the RBI being impressed by the success of these societies, issued a bulletin in 1947 recommending the multi-purpose pattern of cooperative organisations throughout the country. A large number of small sized societies were accordingly converted into multi-purpose societies with a membership of 3.1 lakhs and a working capital of Rs. 1.78 crores. By 1951-52, the number had gone up to about 4933 with a membership of 21 lakhs and working capital of Rs. 13 crores.

2.1.4 The Committee of Direction of the Rural Credit Survey 1954, assessed the performance of multi-purpose societies and reported that “undoubtedly the multi-purpose idea has great possibilities in terms of an individual society which happens to be really able to put it into practice. It also found that neither the small societies nor the multi-purpose societies were suitable pattern for the development of credit cooperation at the primary level. They recommended large sized primary credit societies which may have the following features :

- a) a large membership drawn, if necessary, from more than one sphere
- b) limited liability and State partnership;
- c) emphasis on the grant of crop loans as well as medium term loans to members for production purpose;
- d) meeting of consumption needs through cheap funds;
- e) building up a link between cooperative credit and cooperative marketing;
- f) emphasis on larger deposits.

2.1.5 On an average a large sized society was recommended to have a membership of 300 to 500 persons and a loan business of about Rs. 1.5 lakhs. The organisation of large sized societies was taken up in the country on phased basis and it was proposed that by the end of the 2nd Five Year Plan, 10372 large sized societies would be organised. A sum of Rs. 11 crores was set apart by the Govt. by way of contribution towards the share capital of these societies. However, only three years after the introduction of the large sized societies

scheme, the National Development Council (NDC) in 1958, cried a halt to their further organisation. About 700 large sized societies were organised before their further expansion was stopped. The discontinuance of further organisation of large sized societies was an unfortunate decision as their performance vis-a-vis small sized societies was much better.

2.1.6 On the recommendations of NDC and Mehta Committee on Cooperative Credit, Service Cooperatives were organised in the country.

2.1.7 The major policy in the sphere of agricultural credit has been its progressive institutionalisation for supporting agriculture and rural development programmes with larger flow of funds and to assist weaker sections and less developed regions. The basic objectives of the policy is to ensure timely and increased flow of credit through multi-agency system consisting of cooperatives, commercial banks and regional rural banks. Systematic efforts have been made to step up agriculture credit to the farmers particularly small and marginal farmers and other weaker sections in collaboration with the State Govts, commercial banks, institutions as well as national level institutions like RBI and NABARD.

2.1.8 The RBI, NABARD, are the most prominent national level financial institutions that are rendering financial facilities to cooperative credit institutions.

2.1.9. RBI has transferred its responsibility of providing refinance to cooperative credit institutions to NABARD after it was formed in July, 1982. However, it has still retained some of the powers, particularly in the matter of approving of credit authorisation limits to District Central Cooperative Banks (DCCBs) and State Cooperative Banks (SCBs).

2.1.10 NABARD is a specialised financial institution set up by amalgamating the erstwhile Agricultural Credit Department of RBI and Agricultural Refinance and Development Corporation of India (ARDC) to satisfy the credit requirements of the rural economy. Establishment of NABARD in July, 1982 was a major landmark in the history of rural credit movement in India.

2.1.11 Cooperative credit set up meant for disbursement of short-term, medium term and long term credit to the agricultural sector consist of Primary Credit Societies (PACS), Farmer's Service Societies (FSS), Large Sized Multi-purpose Societies (LAMPS), Gram Seva Sahakari Samities (GSS), Central Coop. Banks (CCBs), Land Development Banks (LDBs)/branches of LDBs/Primary LDBs (now designated as Agricultural and Rural Development Banks). These credit cooperatives are considered to be the most suitable institutions

for disbursement of agricultural credit to the farmers in the country.

2.1.12 PACS including LAMPS and FSS : The following table will indicate the performance of the PACS in the distribution of short and medium term loans advanced from the year 1950-51 to 1985-86 :

	1950-51	1985-86
1. Number of Societies (in millions)	0.105	0.092
	1950-51	1985-86
2. Membership (in millions)	4.4	72.1
3. Short and medium term loans advanced (Rs. in millions)	22.00	3140.4

2.1.13 Central Cooperative Banks, Central Land Development and Primary Land Development Banks : The following table will indicate the performance of the above institutions in the disbursement of loans and advances as on 30.6.1986:

Type of Bank	Number	Membership Socy. Individual		Loans and Advances Issued as on 30.6.86 (Million Rs.)
A. Central Coop. Bank	352	219102	45581	73330
B. Central Land Deve- lopment Bank	N.A.	3848	3468221	5328
C. Primary Land Development Bank	910	-	7826000	3908

2.1.14 The total quantum of agricultural credit disbursed by the Cooperative agencies during 1986-87 was of the order of Rs. 3907.2 millions, 87-88 Rs. 4217.8 millions.

## 2.2 Marketing and Inputs

2.2.1 Perhaps marketing as a cooperative activity is the second oldest area after credit in India. As early as 1912, when the Cooperative Credit Societies Act of 1904 was replaced by a more comprehensive Act that marketing

cooperatives came into existence. Even the Mac Lagan Committee (1915) stressed the need for marketing Cooperatives of growers for eliminating middlemen. Marketing as an activity under the cooperatives has continued to receive similar support from subsequent committees of the Government. However, it is only during the Second Five Year Plan (1956-61) in the post-independence era that marketing cooperatives started getting any appreciable assistance from Government. Since then the marketing societies have increased in their number and scope of activities considerably.

2.2.2 The marketing of agricultural produce as well as supply of inputs is generally taken up by the popularly known 'marketing cooperative societies'. The marketing structure has developed on well defined lines with an apex institution called NAFED at the national level, State Marketing Federations (SCMF), District/Central Marketing Societies and finally at the lowest level 'general purpose primary cooperative marketing societies'. At present, there is at national level, 29 State Cooperative Marketing Federations, 157 District/Central Marketing Societies and 2336 general purpose cooperative marketing societies. Besides this, there are special commodity societies in the country like oilseeds, milk, tobacco, tea, jute etc. with their separate structures including upto the national level.

2.2.3 The turnover of the marketing societies has increased substantially from about Rs. 1600 millions in 1962-63 to about Rs. 50,000 million in 1988-89. The marketing cooperatives are actively involved in the procurement of foodgrains, cotton, oilseeds, sugarcane, fruits & vegetables. They also command about 35 percent share of fertilizer distribution in the country, besides marketing seeds, pesticides and agricultural machinery to a considerable extent. Most of the SCMF and also NAFED have set up a number of processing units for processing various agricultural produce and also manufacturing units for pesticides and fertilizers etc. A large number of State Federations are also marketing consumer goods. The marketing cooperative network is also utilised by the Central as well as the State Governments for providing price support operations for various agricultural commodities.

### 2.3 *Cooperative Storage*

2.3.1 Storage facility is one of the basic infrastructural facilities needed by every agricultural cooperative for delivery of inputs, marketing of outputs and supply of consumer articles. This sector has, therefore, rightly received the attention of Government right from the earlier years of planned development in the post independence era. Special projects were taken up for accelerating the construction of storage facilities in the country with the assistance of World Bank and EEC.

2.3.2 The capacity of storage godowns in the rural areas with the primary cooperative societies varies from 50 MT to 200 MT and at the district and higher levels it varies from 250 MT to 5000 MT.

2.3.3 Prior to 1955, the cooperative were not getting any financial assistance for construction of storage facilities and they had to depend on their own resources. However, with the creation of the National Cooperative Development and Warehousing Board in 1956 and subsequently the NCDC in 1963 concerted efforts were made by these agencies to accelerate the pace of construction of storage facilities in the cooperative sector. The cooperative sector has been able to increase its storage capacity from 0.082 million tonnes in 1955-56 to 10.939 million tonnes by 31st March, 1989. This accounts for about 24% of the total capacity owned by all the public agencies.

2.3.4 Most of the viable primary cooperative marketing societies (PCMS) have already got their storage facilities and the scope for increasing the storage facilities at the primary level is limited. However, considerable scope exists for increasing storage facilities with the District and State level marketing agencies.

## 2.4 Oilseeds

2.4.1 India has been importing edible oil for many years at a considerable cost of foreign exchange. After attaining near self-sufficiency in the production of foodgrains, the Government have now started devoting greater attention to achieving a similar self-sufficiency in the area of oilseeds. A separate Technology Mission on Oilseeds (TMO) was set up in May, 1986 which has achieved dramatic results in a short span of 3 years. The production of oilseeds has jumped from 12.5 million tonnes to about 18 million tonnes in 1988-89. Concerted efforts are being made to increase production of oilseeds as well as to set up additional processing facilities, besides modernising the existing processing facilities. In this effort, cooperatives have also been assigned a very important role.

2.4.2 Upto 1975, it was only small primary cooperative societies which were setting up small enterprises for processing of oilseeds. It was, however, felt that cooperatives should go in for more modern large-sized processing units, which should be owned by higher level cooperatives like District level or State level cooperatives.

2.4.3 Most of the modern large-sized oilseed processing complexes are now being set up by the State level federations. In some States, the SCMF are engaged in this activity whereas in some other States separate commodity

federations have been set up for this purpose.

2.4.4 The Oilseeds Cooperatives have been organised either in 2-tier or 3-tiers and the pattern differs from State to State.

2.4.5 The development of oilseeds through cooperatives is carried out in an integrated manner which includes production, processing and marketing.

2.4.6 Two National level organisations, namely, NCDC and NDDDB are supporting this programme in a big way, NDDDB is supporting this programme under an externally aided project with the help of CLUSA and Canadian Cooperative League whereas NCDC is operating this programme with the help of EEC and IDA/World Bank. The large-sized projects range from 100 tonnes per day to 400 tonnes per day of oilseeds crushing capacity with matching facilities for refining.

2.4.7 The share of oilseed processing in the cooperative sector ranges from 20 to 40% in case of different types of oilseeds.

## 2.5 Sugar

2.5.1 Around 1933-35, four cooperative sugar factories were established in the then United province and Madras province. Of these, only one factory namely; Etikoppaka Cooperative Sugar Factory survived after independence. This also does not seem to have inspired the scheme of cooperative sugar factories.

2.5.2 Foremost as a prototype and a trend setter, though not the first in chronological order, is the Pravara Nagar Cooperative Sugar Factory which was established in 1950. This Sugar Factory brought out the first bag of sugar on 31st December, 1950.

2.5.3 The Scheme of cooperative sugar factories was mooted in the Conference of Local Farmers at Belapur Road, District Ahmednagar, held under the Chairmanship of Professor D.R. Gadgil on 17th December, 1945. The whole idea was to keep the agriculturists master of their own land and to make them use their hereditary skills and long standing experience, increase the general production of agriculture to raise their standard of living, to satisfy the growing needs of the country and to increase the national wealth. With the efforts of local farmers, officials of the Provincial Cooperative Bank and the State Govt. this sugar factory came up, which now stands as a shining example of a successful cooperative.



2.5.4 Since then the cooperative sugar factories have made a phenomenal progress and have come to occupy a dominant position in the sugar sector in India. There are 215 installed sugar factories in the cooperative sector out of 390 total sugar mills. The sugar production capacity of the Cooperative Sector is about 4.8 million tonnes, out of a total capacity of about 8.2 million tonnes. Contribution of the Cooperative Sector in the National Sugar Production is about 58%. In the season 1988-89, out of total sugar production of 87.5 lakh tonnes, contribution of cooperative sector is about 50.7 lakh tonnes.

2.5.5 The factors which have been helpful in development of cooperative sugar factories are :

- i) **Licensing Policy** : The success of Pravara to encourage future development of Sugar Industry in the cooperative sector. With this objective the Govt. adopted the policy of preferential licensing for cooperative sugar factories which has continued since then.
- ii) **Availability of term loan** : Industrial Finance Corporation of India (IFCI) treated installation of new sugar mills as a national priority and provided term loans to them. Other institutions viz; IDBI, ICICI, and LIC also provided term loans under a consortium arrangement with IFCI.
- iii) **Share capital assistance by State Govt.** : The State Govts. adopted a policy of making share capital contribution to the new cooperative sugar factories thereby enabling the societies to collect the required share capital.
- iv) **Establishment of NCDC** : NCDC provided a strong institutional support to the Cooperative Sugar Industry by helping in obtaining licences from the Govt. of India and also the term loan from Financial Institutions. NCDC also provided assistance to the State Govts. for making share capital contribution. From the start of Fifth Five Year Plan (1975 to 1979) NCDC has operated a Centrally Sponsored Scheme to assist the State Govts. so as to supplement their resources for participation in the share capital of new Cooperative Sugar Factories. NCDC has also helped the National and State Level Federations of Cooperative Sugar Factories in creating 'Technical and Promotional Cell' which provide necessary guidelines and advice to the Sugar Factories on technical, managerial and general matters.

2.5.5.1 All the above factors coupled with the initiative taken by the Cooperative leadership have contributed to the building up of a strong cooperative sugar sector in the country. The setting up of sugar factories in the rural areas

has also imparted impetus to overall development in the rural areas.

2.5.6 The sugar factory is set up by the primary society of sugarcane growers. However, state level sugar federations have also been set up in many states.

## 2.6 Spinning

2.6.1 India is the largest cotton growing country in the world. About 60 million people depend on cotton crop for their livelihood.

2.6.2 The setting up of spinning mills in the cooperative sector was first taken up in 1954 in Guntakal in Andhra Pradesh. In the initial years, the growth of cooperative spinning mills was slow but gradually this number went on increasing and, at present, there are 773 cooperative spinning mills in the country with a capacity of 14.07 million spindles. The cooperative sector accounts for about 20% of the total spindleage in the country. The spinning mills in the cooperative sector are both of the cotton growers as well as of the handloom weavers.

2.6.3 The spinning mills have been de-licensed and can be set up freely provided the financial institutions are willing to support such units.

2.6.4 Both the cotton growers as well as the handloom cooperative spinning mills have been getting support from the Government of India from 1974-75 and 1975-76 respectively. The Central assistance is available for participating in share capital for setting up of new mills, expansion of existing mills and also for modernisation. Special programmes have been taken up for setting up cooperative spinning mills with the assistance of World Bank through the NCDC.

2.6.5 The performance of cooperative spinning mills during the last few years has been fairly satisfactory. The average capacity utilisation has been varying between 75% to 78%. The financial performance of most of the cooperative spinning mills has not shown any significant improvement as the cost of conversion has been rising steadily. However, during the current year, the cooperative spinning mills are expected to show better financial performance.

2.6.6 While the overall financial performance of the cooperative spinning mill is not very encouraging there are some very good cooperative spinning mills which have been doing exceedingly well. The cooperative spinning mills have also been exporting yarn and the value of such exports during 1987-88 was of the order of Rs. 428 million, which has risen substantially during the recent years.

## 2.7 Handlooms

2.7.1 With the industrialisation in Great Britain, the traditional handloom weavers in India suffered the worst plight. From the world's leading producers of handloom textiles Indian handloom weavers had to face abject poverty after the mill made textiles invaded the Indian market.

2.7.2 Unfortunately, the poor handloom weavers could not think of organising themselves into cooperatives and safeguard their economic interest. This was mainly because of lack of any awareness of the principles of Cooperation in India at that time. The real effort was made only in 1934-35 to own a weavers cooperatives in the state of Madras, now Tamil Nadu. However, this idea did not catch up to any appreciable extent till India's Independence. Gradually, the handloom cooperatives have been increasingly organised and their number stood at 14,854 as on 31st March 1988. Out of this, over 10,500 cooperative societies are active with over 1.2 million membership. The share of cooperatives in the total production through handlooms is of the order of 22%. The total value of the production of cloth through cooperatives is of the order of about Rs. 6,400 million. Some of the major states where handlooms are mainly in the hands of cooperatives are the States of Orissa, Andhra Pradesh, Tamil Nadu, Uttar Pradesh, Kerala and Madhya Pradesh.

2.7.3 There are, in all, 24 Apex Handloom Federations with a membership of over 10,000 and a turnover over Rs. 3600 million. Government of India gives special assistance to the development of handloom cooperatives through various schemes which can be broadly grouped under the following heads :

- i) Production oriented schemes
- ii) Market support schemes
- iii) Infrastructural development schemes

2.7.4 The handloom cooperatives also get credit requirements at concessional rate of interest through the financing institutions and the State governments provide them the interest subsidy.

2.7.5 The All India Handloom and Handicraft Board is the highest Policy making body which acts as Advisor to the Government of India. The Board is chaired by the Union Minister for Textiles, and all the State Ministers in-charge of Handlooms are its members, besides connected personalities/officials drawn from all over the country.

2.7.6 The Development Commissioner for Handlooms (DCH) Government of India acts as the nodal agency and is responsible for all policy framework and overall development of the entire Handloom sector. NCDC supplements

the efforts of the Government of India mostly in creating marketing infrastructure. NABARD, yet another Central agency, generally takes care of the Working Capital requirements of the Handloom Industry. National Handloom Development Corporation (NHDC), All India Handloom Fabric Cooperative Marketing Society (AIHFCM) and Association of Corporations and Apex Societies of Handlooms (ACASH) are other national level organisations involved in the development of Handloom sector.

2.7.7 All these agencies represent highest level of hierarchy in the handloom structure. Functionally, these agencies take care of planning at the national level, policy framework, financing and providing market support activities. The next level of organisation structure is the State Government which is generally concerned with Regional policy, developmental goals, regulatory inputs and inputs financing. At the third level of the structure, the State Handloom Development Corporations and State Apex Handloom Weavers Cooperative Societies function. These are largely involved in organisational strategies, operational details, cluster developmental approaches, cloth marketing and input supply. At the fourth level of the organisational structure, the primary weavers cooperatives and special projects function largely concentrating on production and localised marketing.

2.7.8 According to the available information about 6300 societies at all levels earned profits in 1987-88 whereas about 4300 were in losses. 1986-87 and 1987-88 were drought years in India which have affected the handloom cooperative very adversely. However, from 1988-89 their situation is improving.

## 2.8 Fruits & Vegetables

2.8.1 The production of fruits and vegetables in the country has been increasing steadily like the other agricultural produce. The Government has taken a number of measures to increase the production of fruits and vegetables. The estimated production of fruits and vegetables was of the order of 91 million tonnes (Fruits - 33 million and Vegetables - 58 million tonnes) during 1986-87. However, the first per capita availability of fruits and vegetables in the country is about 250 gms per day against the recommended requirement of about 500 gms per day. The wastage of fresh fruits and vegetables is considerable and is estimated to be of the order of 20 to 25% of the total production.

2.8.2 The entry of cooperatives in fruits and vegetables is comparatively, of a recent origin. It started with some cooperatives taking up marketing of fresh fruits and vegetables, particularly banana and onions, in Maharashtra and Gujarat. However, subsequently this was taken up in other states also. The value of fruits and vegetables handled by cooperatives has been steadily

increasing from 1980-81 and has gone up from a level of Rs. 670 million in 1980-81 to about 1540 million during 1988-89.

2.8.3 There is no defined structure of fruits and vegetables cooperative societies in different parts of the country. Most of the cooperatives are primary cooperatives and their main activity is marketing of fresh fruits and vegetables. At some places they have processing facilities also.

2.8.4 Fruits and vegetables are, by and large, consumed fresh and very negligible quantities were being processed till recently. However, of late, there is increasing trend in the processing of fruits and vegetables, and this area offers a great scope in the future both for the private sector as well as the cooperative sector.

2.8.5 Majority of fruits and vegetables marketing societies are earning profits in their marketing operations. However, they are incurring losses wherever they have processing units. It is estimated that about 70% of the processing units in the cooperative sectors are incurring losses. These losses are mainly because of managerial and marketing problems.

2.8.6 Fruits and vegetables cooperatives are likely to get considerable encouragement and support from the Government during the next 5 to 10 years. There is need to organise the cooperatives for scientific production, processing and marketing. There is also need to bring into existence the union at the regional level and the federations at the State level in this sector.

## 2.9 Dairy

2.9.1 India, with an annual milk production of 43.9 million tonnes in 1986-87, ranks third in the world after Soviet Union and the United States. The milk production is expected to cross the 50 million-tonnes mark by 1990. The target for 2000 AD is 65 million tonnes.

2.9.2 The breakdown of milk production estimated for 1986-87 is as follows:-

Buffalo milk	--	22.9 million tonnes (52%)
Cow milk	--	19.8 million tonnes (45%)
Goat milk	--	1.2 million tonnes (03%)
Total	--	43.9 million tonnes

2.9.3 The annual milk production has more than doubled in the last two decades from about 19.7 million tonnes to the present level of 43.9 million tonnes.

2.9.4 The NDDB, registered as a society, was set up by the Government of India at Anand in 1965. It was charged with the major objective of providing, on a non profit basis, any technical services which implementing agencies might require in building up their dairy projects. These services were designed to help build up rural milk producers cooperatives based on the lines of the Kaira District Cooperative Milk Producers Union Limited.

2.9.5 The dairy cooperatives, to-day, have a well established three tier system with village level milk producers societies charged with the responsibility of procuring milk from the producer members and providing them inputs for milk enhancement by utilising the technical expertise and infrastructure facilities available with the Distt. Milk Union -- apex body of all the milk producers societies of the district. The dairy development programme in a state is carried out by a State level milk producers federation. The federation is responsible for providing the centralised inputs to the District Milk Unions and also provides the services of professionals for implementation of the dairy projects in the Districts. Marketing of milk and milk products of the district level dairy projects is taken up by the State Federation under a single brand name.

2.9.6 The Programme of Dairy Development through cooperatives has been taken up under successive phases of 'Operation Flood Programme'. Currently, the Operation Flood phase III is in operation. It covers 250 districts in the country grouped into 168 milksheds in 23 States with over 5 million farm families in 49,000 Primary Milk Producers Cooperatives. They sell, on an average, about 8 million litres of milk every day valued at about Rs. 30 million per day. This number of farm families is sought to be increased to 8 million and the milk procurement to 18.3 million litres per day by 1990.

2.9.7 Most of the Primary milk societies are running in profit. However, most of the milk unions at the district level and the State federations are incurring losses.

2.9.8 Milk Cooperatives have, by and large, been very successful in India and have brought in substantial improvement in the economic status of the dairy farmers. It has also been able to meet the demand of liquid milk in most of the larger cities in the country to a considerable extent and has thus been able to protect the interests of the milk consumers as well.

## 2.10 Fisheries

2.10.1 Fisheries cooperatives have been in existence for some time in India. In 1944, there were 200 Fishermen Cooperative Societies in India, which rose to 3,483 by the end of 1966-67. The present structure of fisheries cooperatives

consists of 1 National Federation of Fishermen's Cooperatives Limited (FISHCOPFED), 68 State/Central level fisheries cooperative societies besides around 7,500 primary fishermen cooperative societies. The total membership of fishermen cooperatives is around 0.874 million. The total share capital of these societies is of the order of about Rs. 123 million and their turnover was of the order of Rs. 634 million in 1985-86.

2.10.2 These societies have been organised differently in different states and there is no uniformity in approach. Most of the societies are weak and lack financial and technical support. These societies need to be reorganised/regrouped with a view to making them viable. There is also a need to establish proper linkages at different levels so that all functions of production, processing and marketing can be taken up on a scientific basis.

2.10.3 Fishermen are generally very poor and need special support. Most of them are not educated and lack organising ability.

2.10.4 Primary Fishermen Cooperative societies generally take up only financing activities for their members with a few societies taking up even the fishery requisites supply, transportation and processing activity.

2.10.5 The higher level cooperatives take up the preservation, transportation and marketing of fish and also construction of mechanised fishing boats and provide technical guidance etc.

2.10.6 A special programme for development of inland fisheries through cooperatives is being taken up by NCDC with the assistance of the EEC with a total outlay of Rs. 390 million.

### **3. COOPERATIVE LINKAGES**

3.1 The cooperative movement has become an important sector of economy since independence. In terms of its institutionalisation, membership and operations, it does not have its parallel in the world. The cooperative movement is characterised by its expansion and diversification in various fields. In the agricultural sector, cooperatives play a significant role in disbursement of credit, manufacture and distribution of fertilizer and other inputs, marketing and agro-processing and provide significant support for increasing agricultural production and productivity.

3.2 It is interesting to watch how the 'Cooperatives' of such size and magnitude inter-act with each other in the vast spectrum of day to day relationship.

To understand the cooperative linkages, it is essential, first to discuss the cooperative movement from the 'structural' angles before we come to the functional aspects.

### **3.2.1 Structural linkages**

3.2.1.1 The organisational structure of the movement is a federal one headed by the NCUI at the national level. It emanates from the grass root level and reaches the national level embracing primary, district, state and national level cooperative organisations. The emergence of National Level Federations is the distinct feature of the Indian Cooperative Movement. There are 14 National Cooperative Federations representing various sectors of the movement like credit, marketing, consumers etc. as mentioned in Chapter 1.

3.2.1.2 In addition, there are parastatal institutions sponsored by Government to render support to the cooperative movement like the NCDC, NABARD, and NDDB. Besides, there are multi-state cooperative organisations namely IFFCO, KRIBHCO, National Heavy Engineering Cooperative (NHEC) and Petrofils Cooperative Ltd. (PCL) etc.

#### *3.2.1.3 Structural Relationship between National, State, District and Primary level cooperative*

Each National Federation is designed as the Apex of a broad vertical social grouping within the total structure of cooperative movement. The cooperative federal structure at District, State and National level is built from the primary level upwards. The higher tier organisations are set-up by and for the grass root level primaries. The Federations owe not only their origin, but their subsequent existence, to the primary societies. Whatever its level in the federal structure, a cooperative federation is answerable to its constituent units and can justify its existence only in terms of the services it renders to those units.

3.2.1.4 The National level cooperative federations constitute a part of the overall frame-work described above. At the same time, they have a few distinguishing features which may be described as specially important functions at the national level involving the provision of specific type of services to the constituent units. These functions may be classified under four broad categories :

- i) Spokesmanship functions;
- ii) Promotional and developmental activities;
- iii) Consultancy services; and



iv) Business/trading operations

*3.2.1.5 Structural linkages - State Level*

The edifice of the cooperative movement rests on primary societies. The organisation of secondary societies, also termed as unions, central societies or federations, is a later development representing the second phase of growth. The primary level activities of the cooperative movement are both numerous and diversified. It is for the better organisation and pursuit of their activities that the primary societies have federated themselves into appropriate groups, first at District level, then at the State level and finally at the national level.

**3.3. Federations in the credit and non-credit sectors.**

The Cooperative Movement in India has sometimes, and especially for statistical purposes, been divided into two sectors, namely, "credit" and "non-credit".

**3.3.1 Credit Sector**

3.3.1.1 In the agricultural credit sector, very large numbers of farmers are members of: a) PACS which are expected to undertake multipurpose functions, including disbursement of short and medium term credit, and are federated (through District/Central Cooperative Banks) into State Cooperative Banks; and b) PLDBs which are federated (without an intermediary structure) into SLDB. At the all India level, the two structures have established their respective national federations, namely, the National Federation of State Cooperative Banks and the National Federation of State Land Development Banks.

3.3.1.2 In the non-agricultural credit sector, the employees' thrift and credit societies and urban banks have organised their State Federations in some States. They are affiliated to the National Federation of Urban Banks and credit societies.

**3.3.2 Non-Credit Sectors**

3.3.2.1 In the agricultural non-credit sector, farmers have organised "Special" as well as "General" categories of marketing/processing societies. Some of these "Special" (or "Commodity") societies are:-

- (a) Oilseeds societies

- (b) Dairy societies
- (c) Tobacco marketing societies
- (d) Cooperative Rice Mills
- (e) Cooperative Spinning Mills
- (f) Cooperative Sugar Mills, etc.

Federations upto the national level have been organised by Sugar Factories, Dairy Societies, Tobacco societies, and spinning mills. The other categories mentioned above do not have national level federations. Oilseeds societies have federations at the state level in a number of States. Besides, there are poultry farming societies which have no federations at the national level.

*3.3.2.2 The "general purpose societies", are federated into SCMF and at the national level into NAFED.*

3.3.2.3 Of the remaining non-agricultural cooperatives, mention may be made of fishermen societies, consumer societies, housing societies, industrial societies, and labour contract societies. Each of these groups has its state level federations as well as national level federations.

3.3.2.4 For education, training, publicity etc, all the foregoing categories of societies have together organised their state cooperative unions which are further affiliated to the NCUI. All the sectoral federations at the State level and at the national level are also affiliated to the NCUI.

#### **3.4 Functional Linkages**

3.4.1 There are two aspects of inter-cooperative relationship in the functional field, namely:-

- (i) Horizontal inter-cooperative relationship of cooperative institutions of one sector with the other.
- (ii) Vertical relationship within the same sector.

##### *3.4.1.1 Horizontal Inter-cooperative Relationship*

The Horizontal relationship could be through the following:-

- (a) Representation on the Board of Management

(b) Participation in the share capital or acquisition of membership

(c) Business Relationship

(b) Other areas.

3.4.1.2 The NFSCB and the NCLDBF are members of each other and are mutually represented on the Board of each other. Similarly, the NFCSB is represented on the Board of the NFCUB and Credit Societies. The NAFED and NCCF are members of each other and are mutually represented on the Boards of each other.

### 3.4.1.3 *Outlook for the future*

There is a great need for a much closer coordination between different credit structures at all levels. The farmer should be able to meet his credit requirement under one 'window'. Similarly, the consumer federations should also have a closer relationship with marketing federations and other commodity federations for meeting their requirements of consumer goods. In fact, this type of inter-cooperative relationship offers a tremendous scope for the cooperatives at all levels. The need for such a relationship is increasingly being realised. However they have to go a long way before they establish a good working relationship.

### 3.4.2 **Vertical Cooperative Relationship in the same sectors.**

3.4.2.1 PACS the oldest in service and the most wide-spread, have always been considered as most appropriate instruments for development of rural economy. The cooperative structure at district, state and national levels is built from the primary level upwards. The strength of such structure presupposes strong units at primary level and active business collaboration between the units at all levels. The Federations at higher levels, which are meant to serve the primaries, are supposed to take up only such activities as cannot be handled by the primaries. Unfortunately, in actual practice, quite a few Federations have taken up some of the activities which rightfully lie in the domain of the Primary Societies. This unhealthy practice is weakening the Primaries and needs to be arrested.

## 4. COOPERATIVE MANAGEMENT

4.1 The cooperative management has to cater to the dual objective of a cooperative society which is its commercial operations as well as welfare of its members. The driving force in the cooperative societies is not the profit motive but the economic welfare of its members. Moreover, the management has to be subjected to the democratic control. The cooperative management structures consists of :

- i) Members of Cooperatives;
- ii) Board of Directors; and
- iii) Paid Employees

4.2 The management can succeed only if these three bodies work in unison with proper appreciation of each others roles and aspirations. The measure of success of cooperative management depends on :

- i) Vigilance of the members over the Board of Directors;
- ii) Successful participation of the members in the cooperative democracy; and
- iii) Cordial relationship between the members and the Board on the one hand and between the Board and paid employees on the other.

4.3 The ultimate objectives of the cooperatives, be it the financial viability of the cooperative or the welfare of its members, depend on the ability of its management to compete with other similar institutions in the private as well as public sectors. The management, therefore, will have to constantly strive for :

- i) Improving the performance and efficiency of the cooperative institutions, and thus its viability;
- ii) Render the service motive principle effective keeping abreast with the current developments in all areas, whether relating to technology, financial management, marketing or personnel management, etc.

4.4 This could be achieved only through a dedicated and well trained professional management. Besides the professional management, it is also necessary to educate its members in the principles of cooperation and the importance of professional management because it is only then that they will be able to appreciate the need for professional management and will be able to respect their sensibilities and respond to their requirements and aspirations.

4.5 The management of cooperatives in India has suffered, right through its history of eight and a half decades. It has been of a pedestrian quality. It is

neither based on cooperative principles nor is it professional. The members of the Board of Management have, by and large, very little say in the selection of the paid employees who generally are not professionals. They mostly belong to the Cooperation departments of the state government and, in some cases, are drawn from the other organised services in the State. The cooperative leadership also has not been able to exert itself for their right to manage. The leadership also looks towards the Government for guidance and help. This is an unfortunate situation which has by and large kept the cooperative management under the control of the state. The lack of awareness among the members about the principles of cooperation and working of their cooperatives have also resulted in lack of adequate vigil by the members on their elected representatives on the Board of Management. There are professional cooperators who thrive on this lack of awareness on the part of their members and have been able to continuously retain their stranglehold on various cooperative institutions for achieving their personal gains.

4.6 As mentioned above, most of the paid employees are drawn from Government departments who neither have a permanent stake in the cooperative which they serve nor look towards the management for any career prospects or other benefits. This situation has led to the office of the R.C.S. becoming the most influential centre in the state. This is entirely against the long-term interest of the cooperative movement as it has kept the movement perpetually dependent on the state machinery.

4.7 In many states elections to the cooperatives have not been conducted for decades together and the entire show is run by government functionaries. This is against the very principle of democratic management of cooperatives. Sometimes, cooperative managements are sponsored by the states for political reasons which is also against the principles of cooperation.

4.8 The Central cooperative institutions have also not been able to fulfill the task for which they were brought into existence. Many of these institutions are either dormant or are incapable of providing any effective services to their cooperative societies. Their own management also needs to be professionalised and strengthened.

4.9 The cooperatives can come out of the present state of dependence on the state only if they strengthen their own resource base. While it may be necessary for them to seek support in the early years of their existence but they must gradually become free from state control which is possible by repatriating the state share capital and taking over the same by their own members. This can come about only through awareness among its members which can be brought about by appropriate training and education.

## 5. COOPERATIVE TRAINING AND EDUCATION

### 5.1 Cooperative Training

5.1.1 Prior to 1952, cooperative training and education was left largely to the initiative of the provincial governments. There was no specific central agency to promote cooperative training and education activity, although some assistance, and frequent exhortions, were provided by the Central government.

5.1.2 In 1953, a central agency in the form of Central Committee for Cooperative Training (CCCT) was set up by the Reserve Bank of India for establishing regional training centres for senior and intermediate level personnel of cooperative institutions, and the state departments of Cooperation.

5.1.3 In 1962, it was succeeded by the Committee for Cooperative Training (CCT), which was constituted by the National Cooperative Union of India, with the approval of Government of India. In 1976, CCT was replaced by National Council for Cooperative Training (NCCT), which was created under a bye-law of NCUI, with the approval of Govt. of India.

5.1.4 NCCT discharges its responsibility of imparting training to senior and middle level cooperative executives by running 18 Cooperative Training Colleges all over the country, and the National Institute, namely Vaikunth Mehta National Institute of Cooperative Management (VMNICM) at Pune.

5.1.5 The VMNICM runs a Diploma course in Cooperative Business Management, Executive Development Programme, other short-term programmes, seminars and workshops. The Programme conducted by the colleges, apart from the Higher Diploma Course in Cooperative, are of two kinds : an 18 weeks Diploma course in management, and short-term functional courses on different aspects. These have been specially tailored to meet the needs of the industrial and handloom cooperatives. 10 colleges offer the courses for industrial cooperatives and 5 for handloom cooperatives.

5.1.6 Similarly, the state cooperative unions run 92 Cooperative Training Centres, which conduct the Junior Diploma Courses, primarily meant for the junior level cooperative employees, to meet the requirement of primary societies. In this training structure, emphasis is on imparting knowledge in cooperative principles, history of the movement, cooperative law, management, cooperative audit etc. In order to meet the special training needs, a number of other training arrangements have been made by different cooperative institutions. NABARD's College of Agricultural Banking (CAB) at Pune, and the Institutes set up by NDBB, IFFCO, LDBs, SCBs, etc. fall under this category.

5.1.7 As part of NCDC III Storage Project, NCDC has assisted in setting up 12 Agricultural Cooperative Staff Training Institutes (ACSTI) in various states. The emphasis here is on the 'person-on-the-job', and aims at skill formation and skill upgradation. The ACSTIs also have under them Mobile Guides, who are posted in the field, to provide on-the-job guidance to the societies which have been provided with godowns under the Storage Project.

5.1.8 NDDDB has established the Institute of Rural Management at Anand, and has been persuading the Milk and Oilseeds Cooperative Federations to employ management graduates from this institute.

5.1.9 Similarly, IFFCO has also set up a Cooperative Management Development Institute at Gurgaon. They are conducting short duration courses in the area of marketing and distribution of fertilizers etc.

5.1.10 SLDBs have also set up their own training centres to meet their specific needs. The CAB at Pune is partly by the RBI and partly by NABARD. CAB conducts various short-term programmes for the cooperative banks.

5.1.11 These efforts, however, should not be viewed as parallel training arrangements. They are in fact supplementary efforts, which are need-based for filling the gaps. The required training arrangement in the cooperative sector is quite enormous, as the recruitment of personnel in the cooperative sector is growing at a faster pace today.

## **5.2 Cooperation Education**

5.2.1 Cooperative Education means the education of members, and the elected office-bearers of cooperatives, in the principles and practices of Cooperation, in order to persuade them to adopt a suitable code of conduct.

5.2.2 The State Cooperative Unions, and the District Cooperative Unions affiliated to them, are directly in charge of the implementation of cooperative education programmes. NCUI provides the overall guidance and also gives the necessary training to the personnel engaged in the programmes. The Cooperative Education Instructors (CEI) normally follow the peripatetic method in their work. Recently, at the instance of NCUI, a "team and area approach" has been adopted in selected districts. However, out of the 452 districts in the country, 326 districts are having the peripatetic approach, and only 29 districts have the "team and area approach". The remaining 47 districts are not covered by the CEIs. The total number of CEIs in position is of the order of 739.

5.2.3 There is now an attempt to cover members of non-agricultural cooperatives also. There is also a special education programme for women. The Lady CEIs (78 in number) concentrate their efforts in programmes for women. Similarly, in some states, there is an attempt to focus on the cooperative education programme for youth. Some of the State Cooperative Unions have taken up special programmes for scheduled castes and scheduled tribes.

5.2.4 The NCUI runs the National Centre for Cooperative Education (NCCE) at New Delhi. The basic objective of the NCCE is to provide training to the CEIs. It also provides training support for all NCUI projects in the field of cooperation. The faculty of the Centre, however, is very limited in number.

## 6. COOPERATIVE AUDIT

6.1 A cooperative society is different from a joint stock company. While a company is a profit making concern, a cooperative is a service concern. It is both a commercial as well as a social organisation. The purpose of audit in a cooperative society, therefore, is somewhat different than what is generally understood by the term audit in a commercial concern. In a cooperative society the activities of the society are not carried out to earn profits only but to promote the economic welfare of its members. The purpose of audit, therefore, is to find out the real effect of the transactions i.e. the extent to which these have been able to satisfy the economic needs of the members so as to promote their economic well being. The purpose of cooperative audit can be best stated in the words of the Committee on Cooperation in India set up by R.B.I. :

“It should embrace an enquiry into all the circumstances which determine the general position of the society and aim at seeing that the society is working on sound lines and the committees, the officers and the ordinary members understand their duties and responsibilities.”

6.2 The purpose of the cooperative audit is four-fold :

- i) to ascertain the correctness of accounts;
- ii) to detect and prevent errors and frauds;
- iii) to examine whether the affairs of the society have been carried out in accordance with the principles of cooperation and the provisions of cooperative law; and
- iv) to assess the extent to which the condition of the members has been improved by the activities of the society.



6.3 In India the cooperative audit is both a statutory requirement and is also fully controlled by the State. This is due to the historical fact that the state has been a very active partner in the development of cooperative movement in India and has very great financial stakes in almost all cooperative societies. Moreover, the ordinary members are neither well educated nor are they aware of their rights and responsibilities as members of the society.

6.4 Maclagan Committee on Cooperation also recognised this fact and emphasised the need for a strong control over the societies. The control is sought to be exercised through the audit system which at the same time also preserves the principle of self management by the cooperatives.

### 6.5 Statutory Provisions regarding Audit

6.5.1 In India, cooperative societies are governed by separate Acts enacted for this purpose. In the beginning 'Cooperation' was a Central Subject and so the Central Government passed an Act in order to promote and regulate the cooperation movement. The Act was known as "The Cooperative Credit Societies Act of 1904". Section 21 of the Act dealt with Audit and responsibility was fixed on the Registrar to audit the accounts of each society at least once in every year.

6.5.2 The 1904 Act was replaced by another Central Act - viz. "The Cooperative Societies Act, 1912". Section 17 of this Act dealt with Audit and this section was an improvement over Section 21 of the 1904 Act. It clarified that the Registrar himself need not Audit the accounts of every society. Section 17 of 1912 Act stipulated that the Registrar shall audit or cause to be audited, by some person authorised by him by general or special order in writing in this behalf, the accounts of every society.

6.5.3 As recommended by the Maclagan Committee on Cooperation in their report published in 1915, 'Cooperation' became a provincial transferred subject in terms of the Government of India Act 1919 and provincial governments passed their own Acts, first being Bombay when they passed a separate Act in 1925. These Acts like the previous All India Acts, contained provisions regarding Audit. In general, these provisions, were similar to the Section 17 of the Cooperative Societies Act 1912. These provincial Acts made audit a duty of the Registrar, indicated the scope of audit, and specified the power of the Cooperative Auditor etc.

6.5.4 After Independence, 'Cooperation' was given a vital place in Five Year Plans and it was recognised that laws relating to cooperative societies need simplification, rationalisation and modification. Accordingly, the Government

of India appointed a Committee on Cooperative Law in 1956 to consider the changes required in cooperative legislation in India. The Committee prepared a model bill in 1957 which was circulated to State Governments with a request to revise their Cooperative Societies Act on the basis of model Bill. Section 59 of the model bill dealt with Audit and the provisions contained in Section 59 were more comprehensive than the corresponding provisions of 1912 Act.

**6.5.5** In 1952, the Government of India, in pursuance of the Resolution of the NDC of Cooperative Policy, suggested to the State Governments the appointment of small committees of officials and non-officials to examine the question of simplification and rationalisation of the cooperative legislation. In this regard, the suggestion regarding Audit was: 'the law should provide for Annual Audit either by the Registrar through separate qualified staff or through a properly equipped non-official organisation like the State Union'. In 1960, further suggestions were made to State Governments, and one of them was in the case of bigger cooperatives: 'the Act should give an option to them to get their accounts audited by Chartered Accountants selected out of a panel approved by the Cooperative Department'. As suggested by the Government of India, most of the State Governments appointed special committees or otherwise referred their cooperative laws to their State Cooperative Councils for consideration. As a result of this, most of the State Governments have enacted new cooperative legislation. The new Cooperative Societies Acts contain elaborate Sections regarding Audit. These Sections, by and large, have been adaptations of Sections 59 of the model Bill.

## **6.6 The Scope of Statutory Provisions in relation to Audit**

### **6.6.1 The Statutory Provision cover six important aspects :**

- i) The special features of cooperative audit
- ii) The scope of cooperative audit
- iii) The powers of cooperative auditor
- iv) The rectification of defects
- v) Audit fees
- vi) The procedure for conducting audit

## **6.7 Agencies for Audit**

Cooperative Audit is a statutory obligation of the Registrar. Various Agencies are authorised to audit the societies. These are :

### 6.7.1 *Government Staff :*

The Government have sanctioned departmental staff to conduct audit. The audit staff usually consists of staff of two or three grades.

### 6.7.2 *Audit Unions :*

Audit is also done through Audit Unions. Audit Unions are Cooperative Institutions formed specifically for rendering audit service to the societies affiliated to them. They are Federations of societies. They are managed by the representatives of societies whose accounts are audited by their staff.

### 6.7.3 *Private Auditors :*

The private auditors include Chartered Accountants and retired auditors of Cooperative Department.

6.8 The present position regarding the actual auditing of various cooperative societies and its quality is not at all satisfactory. A review of the working of 1053 primary cooperative marketing societies recently made by the NCDC has shown that audit was completed in respect of only of about 41% of the societies reviewed. Similarly, audit of 13 state cooperative marketing federations was in arrears out of 25 states federations. This is the general state of affairs in almost all types of cooperatives, which needs to be improved.

6.9 Ideally speaking, there should be no state audit in the cooperatives as it is contrary to the basic cooperatives principles and against the very democratic nature of cooperative societies. As mentioned earlier, the state audit is an environmental necessity because of the various factors like State's investments in the cooperatives and the lack of awareness and education on the part of members. However, as and when the cooperative societies become self-reliant and have been able to repatriate the state share capital the need for state audit should disappear. The cooperatives should gradually develop their own institutions for audit either by creating specialised institutions or making some of the state/national level federations responsible for providing such services. However, in case the cooperatives themselves find it difficult to introduce such services then the financial institutions supporting the cooperative movement could provide these services. The Government could, however, continue to have the right to test audit so that the quality of audit under the control of either the cooperatives or the financial institutions is always kept at an efficient and desirable level.

## 7. COOPERATIVE LAW IN INDIA

7.1 The development of Cooperative Law in India has a history of over eight and a half decades though the history of cooperative societies in India dates back to over 100 years. The first Cooperative Law was enacted by the Government of India in 1904 which is known as Cooperative Credit Societies Act. This Act came into existence as a result of the recommendations made by Sir Edward Law who headed a special committee appointed by the Govt. of India to look into the problems of agricultural credit. However, some deficiencies were noticed in this Act as it did not allow cooperative societies other than credit societies to be registered under the Act. This, accordingly, was replaced by another Act of 1912 which sought to remove the drawbacks of the earlier Act. In fact, this Act of 1912 gave the basic framework for the future development of cooperative movement in India. Its main features are as under:

- i) Its scope extended to include every conceivable economic activity among persons of humble means like agriculturists, artisans or wage earners.
- ii) State was empowered to appoint RCS Cooperative Societies and also appoint one or more persons to assist him in the discharge of his duties.
- iii) Societies formed in accordance with the cooperative principles and with the object of promoting members' economic well being could be registered with or without limited liability. A society consisting of individuals in order to get legal status must have atleast 10 members and should have attained the age of maturity.
- iv) A Central society could be registered with one society and a few individuals.
- v) No amendment in Bye-laws was valid unless registered by the Registrar or a person authorised by him.
- vi) The idea of one man - one vote was made practicable. No member could own more than 1/5th of the total share capital. 15% of the net profit of the society was to be carried to the reserve funds.
- vii) The Registrar was empowered to hold an enquiry into the constitution, working and financial condition of a society.

viii) The State Govt. could exempt any society from any of the provisions of the Act.

7.2 The subject of 'Cooperation' was transferred to the States under the Constitutional Reforms Act of 1919. The subject of Cooperation was transferred under "Three List Principle" (State, Civil and Concurrent). However, subsequently under the Govt. of India Act, 1935, the subject of Cooperation became completely a provincial subject. After India's independence in 1947, the Cooperation as a subject has been listed as a State Subject under the constitution.

7.3 Central Government promulgated Multi Unit Cooperative Societies Act 1942 with a view to providing for the incorporation, regulation and winding up of cooperative societies with objects and area of operation not confined to one state. The law was necessitated due to 'Inter-state' operations, business, dealings and activities of cooperatives. The main features of this Act were as under:-

- (i) Provision for incorporation, regulation winding up of cooperatives with objects not confined to one State but registration is possible in any State (where the headquarters of the society is located).
- (ii) Incorporation of societies prior to and after the commencement of this Act.
- (iii) Area of operation and not the business of a society is given consideration.
- (iv) Registration, control and dissolution to be regulated in accordance with the provisions of the State Act in which it is registered. Societies were under the full control, administration and supervision of the State Registrar.
- (v) It provided for the appointment of Central Registrar by the Central Government for exercising the powers on such societies. All such powers are delegated to the State Registrar.

7.4 The Govt. of India appointed a High Power Committee on Cooperative Law in 1958 for consideration of the following:

- (i) suggesting a simple legislation for cooperatives to suit the entire country;

- (ii) to make facile and practical law for ensuring smooth and coordinated progress of cooperative movement; and
- (iii) to study, examine and amend the existing State Cooperative Laws in the light of recommendations of the Rural Credit Survey Committee Report.

7.4.1 A Resolution passed by the National Development Council in 1958 recommended smaller but viable societies and advocated for re-sizing and restructuring of large sized cooperative societies. The Rural Credit Survey Committee report recommended the promotion of cooperatives as a part of State policy which led to State partnership in the share of cooperatives and management. The Committee on Cooperative Law (1957) quickened the legislative process to suggest modifications in cooperative legislation for giving effect to the concept of State partnership in share capital and management of cooperatives.

#### **7.5 Conference of Chief Ministers and State Ministers of Cooperation (1968):**

This Conference considered certain important aspects of management of cooperatives and suggested legislative measures relating to:

- a) exclusion of money lenders from becoming members of cooperatives; b) reservation of seats on the Board of Management of cooperatives for weaker sections; c) restriction on holding office for more than the prescribed term and simultaneously in a number of institutions; and d) regulation of loans to office bearers and regular election by an independent authority.

#### **7.6 Multi State Cooperative Societies Act, 1984:**

While Cooperative is a State subject under the Indian Constitution, cooperative societies with objects extending beyond one state come under the purview of union list. In 1984, the Govt. of India, for the first time enacted a comprehensive legislation called Multi State Cooperative Societies Act 1984 which came into effect from 16th September, 1985. This Act applies to all cooperative societies which were incorporated before the commencement of the Act and i) under the Cooperative Societies Act 1912 or ii) under any other law relating to cooperative societies in force in any state or in pursuance of the Multi Unit Cooperative Societies Act 1942 and all multi state cooperative societies. There is a provision of Central Registrar to be appointed by the Central Government under this Act.

7.7 The main features of this Act are that it lays down guidelines for membership, management, board of directors, nomination by the Government, functions of the board and the chief executive power of the Government to give directions, supersession of the boards, financial and other assistance to be provided by the Government and regular audit of the accounts of cooperatives etc.

7.8 India being a federal state and Cooperation being a State subject, various problems keep cropping up from time to time in this sector. Therefore, there has been a constant review of the Cooperative Law from time to time at different levels. The latest review of Cooperative Law was carried out by the 'Ardhanareeswaran Committee' appointed in 1985 by the Central Government. This Committee has since submitted its report in 1987 which is under consideration of the Government. The recommendations mainly relate to the strengthening of the democratic management and the role of the professionals, restricting the powers of the Government regarding issue of directives, shortening the period of supersession and that no supersession should be carried out by the Government without affording an opportunity to the society, restricting the State partnership in the share capital participation to 1/3rd, keeping the government nominees barred from seeking office in the cooperatives and also from participating in the elections. The recommendations also relate to other operational matters like, term of office of the office bearers, procedure for liquidation of societies, membership, obligation of the society and other matters relating to registration of societies etc. The Committee has also recommended that due representation should be given to women and weaker sections of the society in the cooperatives and other related matters like training, manpower planning, incentives, etc.

## **8. PROBLEMS AND TASKS OF AGRICULTURAL COOPERATIVES**

8.1 The rapid development of cooperatives in terms of its number, sectors and membership in the post-independent India has thrown up a number of problems. The continuance of Government domination in the rapid cooperativisation through its larger share capital participation has not allowed the movement to come out of the control of Government agencies and become people's movement. Similarly, the lack of proper education and awareness on the part of the members, particularly in the agricultural sector has not allowed the development of effective democratic management of cooperatives to the desired extent as most of the cooperative ventures are dominated by government employees in their day-to-day management, it has not been able to

develop professional management which is another serious constraint.

8.2 The delay in timely auditing of the accounts of the cooperatives is another area of great concern as in many cases the accounts have not been audited for years together.

8.3 Political interference in the functioning of cooperatives, supersession of elected boards for political reasons and appointment of nominated Chairmen on the boards of management of many of the large-sized cooperatives go contrary to the democratic management principle of cooperatives. While control of government on the cooperatives may be desirable to continue, not only because of its substantial shareholding in the cooperative venture but also to protect the interest of a large number of small and illiterate farmers, in practice, this control can be and is often misused due to political reasons. There is need to devise ways and means to minimise the political interference in the management of cooperatives.

8.4 The education and training is another area where adequate attention has not been paid in the country so far. In fact, this is a very vital area which, if strengthened, will go a long way in providing a very sound foundation to the entire cooperative movement. The education and training needs to be strengthened not only for the paid functionaries of the cooperatives but also for the members and their elected representatives who are entrusted with the democratic control over the affairs of the cooperatives.

8.5 Cooperatives have to face stiff competition with the private trade who generally do not incur similar kind of overheads for running their establishments. This makes the cooperatives less competitive vis-a-vis the private trade. The cooperatives, therefore, are required to be much more efficient than the private sector. This is only possible if they have well trained and professional management with enlightened membership which, at present, is missing.

8.6 The cooperatives unfortunately want to have more and more business with non-cooperative institutions and particularly with the private trade. In fact, they feel more at home in having business tie-ups with private trade than with sister cooperative institutions. This is a very unhealthy trend which needs to be checked. There is an urgent need to develop sound business relationship among the cooperatives.

8.7 The entire cooperative movement in India has remained in the hands of the Government mainly because of the substantial share capital participation by the Government. The cooperatives must come out of this strangle hold which



is possible only if they regularly retire the share capital of the Government and the members become their own masters. This awareness seems to be lacking at present and can be brought about only through proper education and training. There is also a need to restrict the Govt. share holding and such a restriction should be imposed under the law if necessary.

8.8 Participation of women and members belonging to the weaker sections of society in the Cooperatives needs to be encouraged. They must receive adequate incentives for playing a more active role in the Movement.

**Table - 1**

**All Cooperatives - Number, Membership and Working Capital**

	1950-51	1960-61	1970-71	1980-81	1984-85	1985-86	1986-87
1. Number of societies (in thousands)	180	332	320	326	315	321	342
2. Membership (in millions)	13.7	35.2	64.4	117.6	141.0	142.0	146.5
3. Working Capital (Rs. in millions)	2760	13120	68090	251190	377690	415480	475520

Source : Cooperative Movement in India - A Statistical Profile, 1988, Department Agriculture & Cooperation, Ministry of Agriculture, GOI, New Delhi; Section II.1.P.9

**Table - 2**

**PRIMARY AGRICULTURAL CREDIT SOCIETIES INCLUDING LAMPS & FSS**

	1950-51	1960-61	1970-71	1980-81	1984-85	1985-86
1. Number of Societies (in thousands)	105	212	160	95	92	92
2. Membership (in millions)	4.4	17	42.9	57.5	69.1	72.2
3. Short and medium term loans advanced (Rs. in millions)	220	2028	5779	17460	26930	31404

Source : Cooperative Movement in India - A Statistical Profile, 1988, Dept. of Agriculture & Cooperation, Ministry of Agriculture, GOI, New Delhi; Section I. I. 2.1. p.9

**Table - 3**

**PRIMARY AGRICULTURAL CREDIT SOCIETIES INCLUDING  
LAMPS & FSS**

(Rs. in million)

Year	No. of Borro- wings	SHORT TERM			MEDIUM TERM		
		Advances	Outstan- dings	Overdues	Advances	Outstan- dings	Overdues
1978-79	N.A.	12593.4	15399.8	7484.3	1930.7	5024.8	1774.1
1984-85	21.65	23233.5	28359.9	12181.5	3696.6	11446.6	4121.0
1985-86	19.66	27468.7	32370.7	14206.8	3935.0	10861.3	3854.0
Percentage of rate of change from 1978-79 to 1985-86		118.12	110.20	89.82	103.86	116.15	117.24

*Source :* Cooperative Movement in India - A Statistical Profile, 1988, Department of Agriculture & Cooperation, Ministry of Agriculture, GOI, New Delhi; Section I. I.2.2. p.10

Table - 4

PRIMARY AGRICULTURAL CREDIT SOCIETIES  
(including LAMPS & FSS)

(Rs. in millions)  
Membership & Resources

Year	No. of societies	Member-ship (Million)	Share Capital		Resources			
			Total	Govt.	Reserves	Deposits	Borrowings	Working Capital
1978-79	95782	52.57	4664.3	743.4	1515.3	2163.8	18310.9	30926.6
1984-85	91749	69.18	7786.6	1237.9	2556.0	5240.6	37431.2	69112.2
1985-86	92408	72.12	8315.4	1351.1	2960.8	5719.8	39272.2	65476.1
Percentage rate of change from 1978-79 to 1985-86	(-)3.52	37.19	78.28	81.71	95.39	164.34	114.47	111.71

Source : Cooperative Movement in India - A Statistical Profile, 1988, Department of Agriculture & Cooperation, Ministry of Agriculture, GOI, New Delhi; Section I.1.2.4,p.11.

Table - 5

## AGRICULTURAL PRODUCE MARKETED BY COOPERATIVES

(Rs. in millions)

Year	Food-grains	Sugar-cane	Cotton	Oilseeds	Plan-tation	Fruits & Vegetables	Others	Total
1979-80	5000	5100	4400	700	1240	260	1300	18000
1980-81	5000	5800	5300	700	1250	670	760	19480
1981-82	5700	6000	5500	800	1300	720	980	21000
1982-83	6500	6300	6000	900	1400	830	1070	23000
1983-84	7000	6800	6500	1100	1600	1010	1650	25660
1984-85	9000	7500	7000	1600	1850	1050	2320	30320
1985-86	10000	10000	11700	5000	1500	1080	2650	41930
1986-87	11280	12620	6420	4520	2270	690	2330	40130

Source : Cooperative Movement in India - A Statistical Profile, 1988, Department of Agriculture & Co-operation, Ministry of Agriculture, GOI, New Delhi; Section I. I.3. p.11

**Table - 6****COOPERATIVE STORAGE**

Year	No. of Godowns	Storage capacity owned/ created (million tonnes)
1960-61	5000	0.8
1970-71	17930	3.0
1980-81	29947	5.1
1983-84	42582	7.2
1984-85	44733	7.9
1985-86	49695	8.5
1986-87	52526	9.4
1987-88	54546	10.3

*Source* : Cooperative Movement in India - A Statistical Profile, 1988; Deptt. of Agricultural & Cooperation, Ministry of Agriculture, GOI, New Delhi; Section I. I.4. p.12

**Table - 7****Financial Outlays & Expenditure on Cooperation**

Particulars	Total (Rs. in millions)
A. Central/Centrally Sponsored (other than credit)	
Sixth Plan (1980-85) (Actual Expenditure)	2313.7
Seventh Plan (1985-90) (Revised Plan Outlay)	3380.0
B. State Sectors	
Sixth Plan (1980-85) (Actual Expenditure)	5840.8
Seventh Plan Outlay (1985-90)	9005.8

*Source* : Cooperative Movement in India - A Statistical Profile, 1988; Deptt. of Agriculture & Cooperation, Ministry of Agriculture, GOI, New Delhi; Section II, II. 1.1. p.13.

Table - 8

Tarqets & Achievement of Short Term, Medium Term and Long Term Loans  
Disbursed by Cooperatives (All India)

(Rs. in millions)

	Short Term		Medium Term		Long Term	
	Annual Plan 1987-88	Seventh * FYP	Annual Plan 1987-88	Seventh * FYP	Annual Plan 1987-88	Seventh * FYP
	Target	Anticipated	Target	Anticipated	Target	Anticipated
	Achieve-ment	Achieve-ment	Achieve-ment	Achieve-ment	Achieve-ment	Achieve-ment
46909	26617	32884	33757	33757	2331	3263
					10307.0	5802
					3505	17289.2
						7077.0

\*Five Year Plan

Source : Cooperative Movement in India - A Statistical Profile , 1988; Department of Agriculture & Cooperation, Ministry of Agriculture, GOI, New Delhi; Section II, II.2, II.3 & II.4, ps. 15-17.

Table - 9

ALL STATE MARKETING FEDERATIONS - MEMBERSHIP,  
PAID-UP SHARE CAPITAL AND TURNOVER

(Rs. in millions)

	Membership	Paid-up share capitals			Turnover
		Members Cooperative	Govt.	Total	
All State Cooperative Marketing Federations	24532	209.6	1456.3	1665.9	21002.5

*Source* : Cooperative Movement in India - A Statistical Profile, 1988; Department of Agriculture & Cooperative, Ministry of Agriculture, GOI, New Delhi; Section V, V.B.1, V.B.2 & V.B.3, pgs. 50-52.

Table - 10

**CENTRAL COOPERATIVE BANK, CENTRAL LAND DEVELOPMENT BANK AND PRIMARY LAND DEVELOPMENT BANK-NUMBER, MEMBERSHIP, PAID-UP CAPITAL AND LENDING (ALL-INDIA)**

(Rs. in millions)

Type of Bank	Number	Membership		Paid-up Capital		Loans and Advances Issued as on 30.6.1986			
		Socy.	Individual	Total	Of which Govt.	Short-term	Medium term	Long term	Total
A) Central Cooperative Bank	352	219102	45581	5056	1176	63187	9686	458	73331
B) Central Land Development Bank	N.A	3848	3468221	1930	465	-	-	5328	5328
C) Primary Land Development Bank	910		7826000	1496	200	-	-	3900	3900

Source : Cooperative Movement in India - A Statistical Profile, 1988; Department of Agriculture & Cooperation, Ministry of Agriculture, GOI, New Delhi; Section VI, VI.A.1, VI.A.2, VI.B.2, VI.B.2, VI.C.1, & VI.C.2, pgs, 53-58



Table - 11

VARIOUS TYPES OF PRIMARY LEVEL SOCIETIES - NUMBER, MEMBERSHIP, PAID-UP SHARE CAPITAL AND BUSINESS TURNOVER (ALL-INDIA)

(Rs. in millions)

Type of Societies	Number	Membership as on 30.6.1986	Paid-up Share Capital		Business turnover as on 30.6.86
			Total	Of which Govt.	
1. Primary Agril. Credit Societies (including LAMPS and FSS)	92408	72117000	8135.4	1351.1	Loans/Advances issued:- i) Short term 27468.7 ii) Medium term 3935.0
2. Marketing societies	6356	4751017	841.9	N/A	248888.8
3. Poultry Coops.	1604	94913	18.2	N/A	105.1
4. Milk Supply Socys.	54603	6485639	224.8	N/A	8850.0
5. Fisheries Socys.	7754	674121	87.0	N/A	502.2
					<u>Total</u> 31403.7

Type of Societies	Number	Membership as on 30.6.1986	Paid-up Share Capital		Business turnover as on 30.6.86
			Total	Of which Govt.	
6. Weavers Coop. Socys.	12377	1314375	424.7	N/A	3927.4
7. Spinning Mills (as on 30.6.87)	100 (installed as on 30.6.87)	436454 (Mills in pro- duction)	2086.5	N/A	Yarn Prodn. 178,939 million Kgs. Value: N/A
8. Sugar Mills Coops:	201	1797814	4303.0	N/A	Coops: 4754 (in '000 tonnes) Total: 8502
	Total: (as on 30.6.87)	377 (in r/o 189 reporting mills)	N/A	N/A	N/A
9. Oilseeds units	Assisted Installed	120 105	N/A	N/A	N/A
10. Consumers' Socys.	20356	6622011	285.3	N/A	6863.7
11. Women Coops.	3740	300694	36.7	N/A	166.9

Source : Cooperative Movement in India - A Statistical Profile, 1988; Department of Agriculture & Cooperation, Ministry of Agriculture, GOI, New Delhi; Section VI, VI. D.1. VI.D.2, VI.E.1, VI.F.1, VI.F.2, VI.F.3, VI.F.6, VII.A.1, VII.A.2, VII.A.3, VII.A.4, VII.B.2, VII.B.3, VII.B.4, VII.C.1, VIII.3 & VIII.4, PGS.61-62, 65-68, 71-76, 78 & 86-87

**Table - 12**

**COOPERATIVE EDUCATION AND TRAINING - ALL INDIA**

		Number	
i)	Number of persons trained in cooperative Institutions during 1986-87	28034	(Senior level = 1008 Intermediate = 9891 level Junior level = 16405 Cooperative = 730 Education Instructors)
ii)	Management Training for Senior level personnel (total trained upto 31.3.87)	15728	
iii)	Number of courses and persons trained in Cooperative Education at Junior level (total trained upto 1987-88)	No. of course No. of persons trained	= 28752 = 873939

*Source :* Cooperative Movement in India - A Statistical Profile, 1988; Department of Agriculture & Cooperation, Ministry of Agriculture, GOI, New Delhi; Section IX.1, IX.2 & IX.3, pgs, 88-89.

Table - 13

TOTAL CONSUMPTION OF FERTILISERS ( N+P+K )  
AND SHARE OF COOPERATIVES DURING 1983-84  
TO 1985-86 - ALL INDIA

Year	Total consumption	Quantity handled by cooperatives	(in '000 tonnes)
			(Nutrients)
			% share of cooperatives
1983-84	7710.10	3345.40	43.00
1984-85 <sup>a</sup>	8210.92	3600.49	43.84
1985-86	8738.36	3108.17	35.57

Source : Cooperative Movement in India - A Statistical Profile, 1988; Department of Agriculture & Cooperation, Ministry of Agriculture, GOI, New Delhi; Section X.4, p.94.



# **Present Situation, Problems and Future Tasks of Agricultural Cooperatives in Malaysia**

## **HISTORICAL BACKGROUND**

The cooperative movement in Malaysia was introduced in 1922 as a means of tackling the widespread indebtedness of farmers and workers, including Government civil servants.

In 1948, with the establishment of the Federation of Malaya, the Cooperative Societies Ordinance, No 33 of 1948 was approved for the whole of the Federation of Malaya. With this, the Cooperative Development Department was integrated and all duties and responsibilities to develop and expand the teaching and concept of the cooperative movement were streamlined by the department headed by a Commissioner for Cooperative Development, Federation of Malaya, who was also for the purpose of legal administration, appointed as the Registrar of Cooperative Societies.

### **Reorganisation of Cooperative Movement**

The cooperative movement developed quite rapidly in the 60s and 70s but most of the cooperative societies, especially the farming and fishermen societies, were not able to function satisfactorily due to certain factors, prominent among which were inefficient administration and management, and limited technical experience. The Government, therefore, decided that for the benefit of these societies and their members, these cooperatives should be separated from others which were mostly operating in the urban areas. Moreover, following the establishment of Farmer's Associations in the country the government felt that the agro and fishery-based cooperatives should be integrated with the Farmer's Association and Fishermen's Association so that there would not be competition and duplication in the activities of the bodies concerned.

The Farmers' Association Organisation (FAO) which was established in 1972, was given the responsibility of integrating and streamlining the activities of the Farmers' Associations and cooperative societies which were agricultural in nature; the Fisheries Development Authority (FDA) established two years later, would do the same for the fishermen's cooperative societies and

fishermen's associations. Through the will of a Government policy formulated in 1973, all cooperative societies of the agricultural type were handed over by the Cooperative Development Department to the Farmers' Associations Organisations. Fishermen's cooperative societies were handed over to the Fisheries Development in 1975.

The position of cooperative societies handed over to these agencies was as follows:

a) *Farmer's Association Organisation*

No. of Coops	No. of members	Share Capital (M\$)
1,550	133,828	8,856,784

b) *Fisheries Development Authority*

76	9,000	4,555,000
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At the end of 1972, the number of registered cooperative societies in Peninsular Malaysia was 2,475 with a membership of 722,934. After the transfer of the agricultural type of cooperative to the FAO the number of cooperative societies registered in Peninsular Malaysia at the end of 1973 was 1026 with a membership of 688,265.

Registrar of FAO has the power to register or deregister any agriculture cooperative as provided for in the Act. In 1973, based on information given by FAO, 524 out of 1550 agricultural cooperative had been deregistered mainly due to inefficiency and inviability. 15% of the agricultural cooperative had the membership of less than 100 while 38.1% has less than 20.

From 1975 to 1985, 33 fishery cooperatives have been deregistered by the Fisheries Development Authority. Whereas at the same time there is no report of registration of fishery cooperative. This is mainly due to the fact its registration is not encourage under the Fishery Act, 1975. Today there are only 40 fishery cooperatives operating in Malaysia.

### **Agricultural Sector**

Malaysia has a total land area of 32.8 million hectares of which 11.3 million are suitable for agriculture. Thus far, about 6.7 million hectares (60%) of it has been cultivated while the remaining 4.6 million hectares are available for future development. Malaysian agriculture is commodity-ori-

ented with the plantation sector, which is commercially biased, concentrating on export crops such as rubber, palm oil, coconut, fruit, pepper, sago and other food crops.

The agricultural sector is characterised by the presence of an efficient and well-organised plantation sub-sector and the less-organised and less-sufficient smallholding (less than 40 hectares each) sub-sector. While the plantation sector is successful, dynamic and export-oriented sector, the smallholding sector experiences all kinds of constraints which have led to low productivity, low farm income and the occurrence of a higher incidence of poverty among the small farmers.

Malaysia's economy is basically agricultural. Between 1970 and 1975 agriculture, forestry and fishing had the biggest share (25.8%) in job creations, with manufacturing accounting for 18.4% of new jobs in the same period.

Continued efforts were made to expand employment opportunities as well as a greater utilisation of the labour sector. Agriculture provided a total of about 2,067,000 jobs or 40.6% of the total employment in 1980, compared with about 1,715,000 jobs or 50.5% in 1970. New employment opportunities were largely from the Federal and land development schemes of which the Federal Land Development Authority (FELDA) and the Federal Land Consolidation and Rehabilitation Authority (FELCRA) created a total of 92,300 jobs over the decade, alleviating poverty in the rural areas, particularly among rice and rubber small holders. In view of the downturn in agriculture and increasing migration to urban areas, the Government recently reviewed its sectoral objectives and announced a National Agricultural policy (NAP). Maintaining the emphasis on poverty alleviation, the NAP objectives are: (a) maximization of farm incomes to improve the quality of rural life and facilitate retention of productive labour in the sector; (b) expansion of production of traditional and new export and food crops to revitalize the agricultural sector; and (c) to achieve food security.

The Government's main objectives have been pursued through two basic strategies: (1) land development and settlement to provide viable farm sizes and adequate incomes and to expand tree crop production for export through well organised and managed settlements; and (2) *in situ* development projects designed to consolidate small farms, rehabilitate idle lands, increase productivity and improve farm management. This has led to the development of large land settlement schemes by the State government and FELDA, irrigation projects by the Ministry of Agriculture; land rehabilitation by FELCRA and rubber replanting and mini-estate development programmes by RISDA.



Under the NAP, these strategies will continue. However, greater attention will be given to the problems of uneconomic farms, unprofitable crops and low productivity in the *in situ* development projects. This includes mechanisation, promotion of group farming, with centralised management, and the intensification of integrated support services and credit for selected crops.

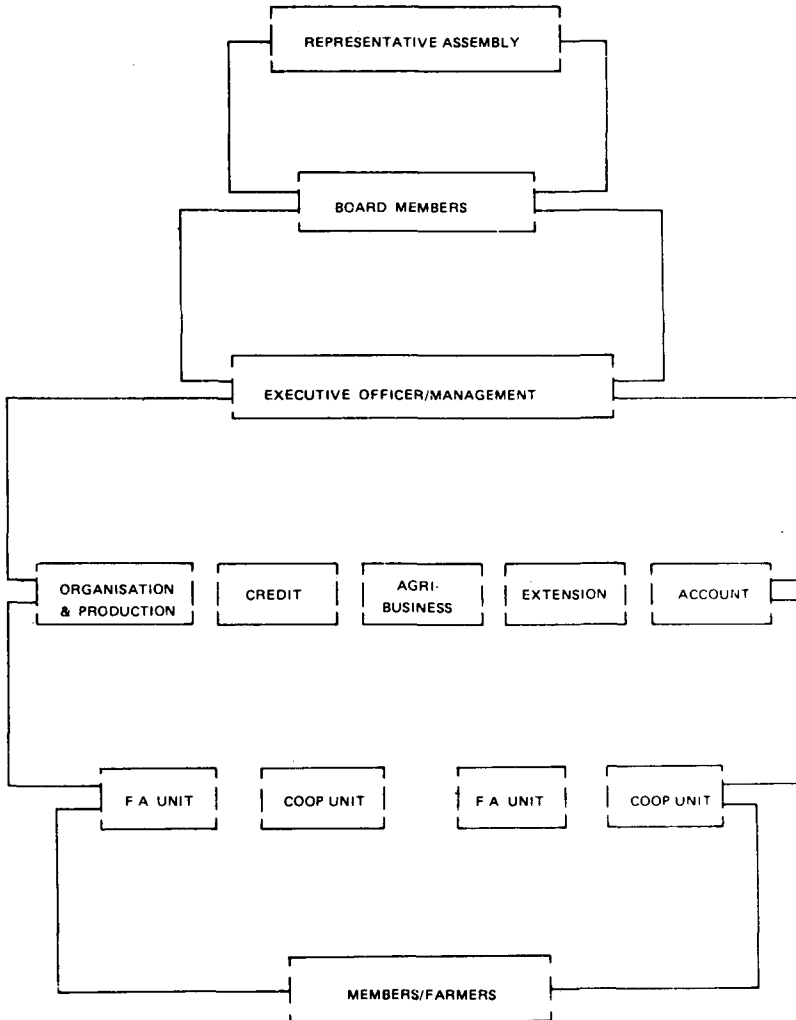
In 1972 ANGKASA or National Cooperative Organisation of Malaysia was formed by the cooperative societies in Malaysia. It is recognised by the Government as the national body representing the Cooperative Movement in Malaysia. Now there are about 1,312 cooperatives societies affiliated to ANGKASA.

Cooperative Movement in Malaysia make a new dimension in 1980. The Ministry of Rural and Land Development launched the 'New Era of Cooperative' whereby cooperatives have to improve their management such as administration, updating the accounts and the like. Cooperatives were urged to conduct their annual General Meeting and will be listed in the 'black book' if they fail to do so.

# PRESENT SITUATION

## ORGANISATION AND STRUCTURE

### ORGANISATION CHART OF AN AREA FARMERS' ASSOCIATION



The general administration of the cooperatives, rests with the Board. As a general rule, the Board members are elected at the General Meeting in accordance to stipulations laid down in the bye-laws. Due to the fact that the General Meeting is usually held once a year during which reports and statements regarding the operation of the cooperative are discussed and hence, it is incumbent upon the Board as part of their duties to be given a sufficient period of time before they are required to present their report at the General Meeting. If the duties are not carried out properly, then the financial status or the operation of the cooperative, will generally tend to deteriorate to a serious and dangerous stage.

The Board is expected to hold a meeting at least once a month. The meeting of the Board if properly conducted, can be viewed as a practical business school for the Board. It is in the meeting where the Board Members have the opportunity to learn or to train themselves in the industry and business aspects with the condition that the management presents his monthly reports with complete and full details.

The relationship between the Board and the management should always be close. Each party has its own duties and responsibilities. Discussion on specific matters and exchange of opinions among one another ought to exist frequently in order to establish a firm understanding of one another. The management plays an important role in the meeting of the Board. It is at liberty to put forth its views and recommendations but at the same time it cannot insist that its recommendations must be accepted by the Board. The power to make the final decision rests with the Board. If there is any difference in opinion between the two parties, then the view of the Board shall prevail as long as it is in line with the decision of the General Meeting and the cooperative's constitution.

It need not be emphasised that members are naturally involved in the control and management of co-operatives by means of their roles and responsibilities. Every board members should truly understand of the members' involvement in the management or control factors at the General Meeting.

In 1967 the Farmers Association Act was passed for the purpose of forming Farmers Association which could undertake multipurpose commercial activities. Farmers Associations were also granted legal exemption from profit tax, stamp duty, relevant sections of trade union laws and company acts to put them on par with cooperative societies. Under the 1967 Act, the single purpose farmers associations were converted into multipurpose farmers associations whose functions were to provide credit, input supplies, transportation, extension services and marketing facilities. Thus there came about two types

of organisations functioning in rural areas namely, Farmers Cooperative Societies and Farmers Associations. The presence of these two types of organisations within the same locality caused confusion among farmers and serious conflicts and rivalries. In view of this, two new Acts were enacted, viz. (1) Act No. 109 Farmers Organisation Act, 1973 and Act No. 110 Farmers' Associations Organisation Act, 1973.

The Farmers' Association Organisation was vested with power to amalgamate agro-based cooperative society and the Farmers' Association into one organisation known as Farmers' Association. The FAO had more or less the same powers and responsibilities as the Registrar and Director General of Cooperatives in respect of farmers organisations. The Cooperative Department thereafter did not have any power and responsibility vis-a-vis cooperatives in rural areas. No agricultural cooperatives were to be promoted.

The Department of Agriculture which earlier had the authority over the farmers associations also did not have any authority vis-a-vis farmers organisations from 1973.

The major responsibilities of the Farmers' Association Organisation are as follows:

- a) to promote, stimulate, facilitate and undertake economic and social development of Farmers' Associations;
- b) to register, control and supervise Farmers' Association and to provide for matters related thereto;
- c) to plan and undertake agricultural development within a declared Farmers Development Area; and
- d) to control and coordinate the performance of the aforesaid activities.

Farmers' Association were to be established in selected priority areas based on the concept of area development where concentrated agricultural development was to be promoted. Each FO was to cover approximately 5,000 to 10,000 acres and provide essential agricultural and economic services to 1,000 to 2,500 farm families in the area. The Area Farmers' Association is composed of Small Agricultural Units (SAU) and agro-based cooperative societies as unit members. Each unit member sends its representative to the general assembly which elects seven out of eleven members on the board of directors. Four members are appointed by the Minister of Agriculture.

A SAU comprises about 30 members. It elects one Chief and five Committee Members. Normally all activities of the Farmers' Association are channelled through SAU Committee.

The Farmers' Association Organisation assigns to the Farmers' Association management staff generally consisting of a General Manager and five officers. These officers perform duties in the fields of accounting, credit, agribusiness and farmers development.

In 1973 there were 66 Farmers' Associations and 882 agro-based cooperatives both of which were functioning separately and independently. The number increased to 176 Farmers' Associations by 1982. The agro-based cooperatives numbering 707 were functioning as units of these Farmers' Associations.

The membership of the above organisations increased from 82,740 in 1973 to 222,865 in 1982.

Farmers' Association is expected to carry out the following services required by the members:

- (a) Agricultural extension service;
- (b) Credit facilities and services;
- (c) Supply services;
- (d) Mechanisation services;
- (e) Warehousing facilities;
- (f) Processing facilities; and
- (g) Marketing facilities.

Compared to the above, Farmers' Association have generally provided the following main services, viz. provision of credit, supply of agricultural inputs, supply of consumer goods, marketing of agricultural produce and extension services. We are presenting below detailed information on these activities. Data regarding the share of the Farmers' Association of the total needs of farmers in these various areas were not available to us.

## **Business**

One of the stated objective of agro-based cooperatives in Malaysia is the promotion of the social and economic interests of their members. In order to achieve this desired objective agricultural cooperatives carry out various activities, such as:

- i) production and selling of agricultural inputs for example fertiliser, chemical, seeds etc;
- ii) to provide agricultural machinery service such as tractors, combine harvestors and transportation;
- iii) to provide credit facilities to members by forming revolving fund or acting as agent to Agricultural Bank;
- iv) conducting farmers saving scheme, investment and insurance;
- v) marketing of agricultural products;
- vi) to undertake various industries related to agriculture such as processing of cocoa, coffee, paddy and tobacco; and
- vii) to promote agricultural projects such as collective farming, mini estate and nursery of oil palm, rubber and paddy.

## **Involvement of Farmers' Association in the Business**

One of the main activities of the Farmers' Association is marketing of agricultural production especially those produce by the members. The main objective is to get better price for the members and also extra income in the form of rebate or dividend.

In general, Farmers' Association has its commitment in marketing of members agriculture production *in situ*. This depends upon the financial availability and managerial skills of the association itself.

## Marketing

Value of the agriculture products that have been marketed by the Farmers' Association is as follow:-

	1981 (\$)	1982 (\$)	1983 (\$)	1984 (\$)
Rubber	1252903	1922014	2748597	2396122
Oil Palm	2161486	2301486	2453850	4445885
Rice	3149272	6196217	4162075	3598678
Coconut	623355	633119	1171286	1902033
Cocoa	316033	548912	647622	752244
Coffee	433637	508869	173890	549628
Sugarcane	12903	8485	-	6567
Pineapple	441983	50385	247655	-
Groundnut	642652	574696	99328	25331
Topioca	182093	-	-	-
Banana	170203	119377	28092	18879
Watermelon	158914	16386	2841	-
Sweatcorn	61016	12546	369	604
Tobacco	1736390	3003015	4521546	2212479
Ginger		2130	-	-
Vegetable	129390	439038	2747	-
Chicken	611642	803306	1252531	1007985

	1981 (\$)	1982 (\$)	1983 (\$)	1984 (\$)
Goats	-	-	1574	-
Others	1180	1996	47079	27147
<b>Total</b>	<b>12085152</b>	<b>17142067</b>	<b>17563599</b>	<b>16960531</b>

### *Household Goods*

The supply of household goods by the Farmers' Association to the members is to provide the said service and at same time promote the quality of life of the members. The goods include those which are consumed daily, such as rice, onions and cooking oil; and electrical goods. According to the statistic available, the volume of household goods sold to members through Farmers' Association increased from \$1 million in 1981 to 4 million in 1985. In the long run, this activity will benefit the members and will meet their needs.

### *Supply of agricultural inputs*

This is an important activity of the Farmers' Association. The table below indicates the sales value of agricultural inputs supplied by Farmers' Associations. The number of Farmers' Associations engaged in supply of agricultural inputs and the average value of sales has been showing an increasing trend. The fertiliser subsidy scheme presently undertaken by the government has affected fertiliser sales by the Farmers' Association.

#### **Sales value and average sales value of agricultural input by Farmers' Association**

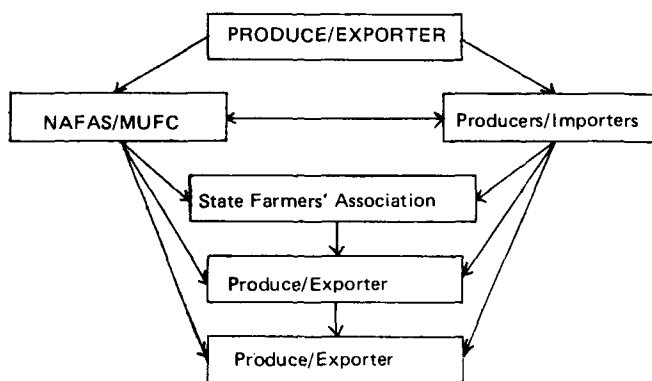
Year	No. of Farmers' Association involved	Total Sales (\$ million)	Average sales value
1973	76	6.89	81,500
1974	80	9.32	116,500
1975	97	5.90	60,800
1976	126	7.11	56,500



Year	No. of Farmers' Association involved	Total Sales (\$ million)	Average sales value
1977	127	7.01	55,100
1978	142	8.78	61,800
1979	152	10.15	66,800
1980	151	13.86	91,700
1981	157	11.05	70,300
1982	168	11.54	68,600

### *Fertilizer*

Malaysia import large quantity of fertilizers for agricultural purposes. Importation is done by major established trading house which obtain in bulk, and process them into mixtures or granulated composites. The local manufacturer and importer market their product through cooperatives as illustrated in following diagram :



#### IMPORTATION OF FERTILISER

NAFAS — National Farmers' Association

MUFC — Malaysian Urea & Fertiliser Corporation

### *Credit Activities*

Farmers' Association Organisation also provide credit for group farming projects. A Farmers' Association operate out of its own fund (share capital), borrowed funds - from the Farmers' Association Organisation, or the Agriculture Bank (acting as local credit centre). The Farmers' Associations also gives out loans for various projects such as purchase of inputs (insecticides, fertilizers, seeds and planting materials) and tractors to farmers organisations.

### *Supply of Credit*

The following table shows the amount of credit provided by the Farmers' Organisation from 1975 to 1982 :

Total Amount of Credit		
Year	No. of Farmers' Association	Amount (Million (M\$))
1975	120	2.38
1976	132	5.03
1977	117	3.32
1978	140	6.42
1979	147	5.24
1980	141	5.53
1981	138	5.80
1982	125	6.37

The average amount of loan given by the Farmers' Association increased from M\$28,376 in 1977 to M\$50,960 in 1982. However, 45% of the Farmers' Associations advanced loan amounts of less than M\$20,000 per year. The source of funds for the Farmers' Association are their own capital, funds received from Farmers' Association Organisation and loans from the Agricultural Bank of Malaysia. Farmers' Association Organisation advances loans

for purchase of agricultural inputs and marketing activities. Some loans are given for implementing crop production projects.

The number of Farmers Associations engaged in credit business is declining from 1979 on account of the interest free loans being advanced by the Agricultural Bank of Malaysia for poverty eradication projects and the Paddy Fertilizer Subsidy Scheme.

### *Processing*

The contribution of Farmers' Associations in processing has been limited. It is the agro-based cooperative societies who have mainly undertaken rice milling activities. Paddy milling has declined from 120,000 metric tons in 1976 to 92,326 metric tons in 1983. The Paddy and Rice Marketing Board is now recognising agro-based cooperatives as rice milling cooperatives in order to enable them to retain their business.

15 Farmers' Associations were involved in tobacco curing and they accounted for 23% of the total curers in the country. Farmers' Associations have been able to fulfil about 83% of the quotas of tobacco curing allotted to them.

### *Extension Services and Training*

Extension services of the Farmers' Associations have been confined to advisory service and consultation with the farmers. Farmer members approach Farmers' Association personnel for advice regarding problems faced by them. Meetings of the SAUs are important channels for communication between the members and the Farmers' Association personnel. However, it appears that the Farmers' Association Organisation has not emphasised this aspect in Farmers' Association work programmes in view of the fact that agricultural extension is the responsibility of the Department of Agriculture.

During the recent years farmers' training has been started more systematically and intensively with the appointment of regional training officers. During the years 1982-83, 379 sessions were conducted compared to less than 50 per year earlier. The Farmers' Association Organisation training policy has the following two objectives:

- a) to offer training in cooperative management and organisation to leaders of Farmers' Associations and agro-based cooperatives in order to equip them to be leaders who are responsible, disciplined and progressive; and

- b) to offer general information and education to members or prospective members of Farmers' Association in order to achieve more meaningful membership.

The training sessions are mostly for members of the Farmers' Association board of directors, SAU leaders and other members who show potential to be leaders in their community. Generally training sessions involve two or three days lectures as well as some brain storming sessions. External Instructors are employed to contribute materials for seminars and discussions. Most of the courses were confined to management and accounting procedures. The planning of the courses and course designing was done by the Farmers' Association Organisation on the advice of the Farmers' Association General Managers.

#### *Financial Performance of Farmers' Associations*

In 1982, 108 Farmers' Associations (71%) obtained a net profit amounting to M\$4.6 million. The number of Farmers' Associations. Their losses were to the tune of M\$710,000, at an average of M\$14,400 per Farmers' Association.

The number of Farmers' Association making a surplus of over M\$60,000 is 29. Only one Farmers' Association has made a loss exceeding M\$60,000.

The average assets of the Farmers' Associations have been steadily increasing from 1976 onwards. The average asset of Farmers' Association in 1982 was M\$364,000

#### *Rural Housing*

Most of the cooperatives do not provide houses for members. Members themselves are expected to built their own house, with the exception of land development schemes under FELDA whereby it is the responsibility of the authority to provide housing for the settlers.

#### *Welfare*

In the case of health service, health facilities of reasonable and acceptable standard are easily accessible to the people. Most of the facilities are provided by the government even though private clinics of relatively higher standard are also available for those who prefer to be treated in a more comfortable environment. The facilities provided by the farmer is free of charge

except that patients are required to pay nominal registration fee, ranging from \$0.50 to \$1.00.

It is a common practice, especially among rural-based cooperative societies to create various welfare funds out of the net profits they generate in their financial years. Among the more typical funds would be Death Beneficiary Fund, Share/Subscription Redemption Fund, Scholarship Fund, Emergency Fund and Charitable Purpose Fund. All these funds, with the exception of the last are solely to be utilised for the benefits of the members. The last fund, as its name indicate, is the contribution of cooperative societies to the communities in which they exist.

## **Management**

### *Managerial Analysis*

In Malaysia, managerial analysis of the cooperatives is in the control of either Cooperative Development Department, FAO or FDA. Before conducting the Annual General Meeting the cooperatives have to submit their annual report for approval to various government agencies whose responsibility include the supervision of cooperatives.

It is for this reason, Malaysia has a common system of accounts in the cooperative management. Information system of account is a very important quantitative information in cooperatives. It not only gives a genuine picture of the cooperative but also it helps in the process of coordination and decision making. Basically there are 6 types of financial statements in the cooperatives. They are namely:

1. Business account
2. Profit and loss account
3. Distribution of surplus
4. Balance sheet
5. Supplementary notes to the account
6. Reports of the Registrar, External Auditor and also statutory report of the Board.

### *Process or Preparation of the Financial Report*

All records for every transaction shall be kept properly and systematically based on the guidelines which is agreed upon.

It is not surprising therefore, that the preparation and presentation of cooperatives accounts are slightly different from those of companies. 3 sections of the Act are important as regard to the preparation of the accounting affairs of cooperatives. They are;

Sec. 35 (1) Every registered society shall cause to be kept such accounting and other records as will sufficiently explain the transactions and financial position of the society and enable true and fair trading and profit and loss accounts and balance sheets and any documents required to be attached thereto to be prepared from time to time, and shall cause those records to be kept in such manner as to enable them to be conveniently and properly audited.

(2) Every registered society shall cause appropriate entries to be made in the accounting and other records as soon as possible but not later than thirty days of the completion of the transactions to which they relate.

(3) The Registrar-General may in any particular case order that the accounting and other records of a registered society be open to inspection by an approved auditor acting for a member or officer, but only upon an undertaking in writing given to the Registrar-General that information acquired by the auditor during his inspection shall not be disclosed by him except to that member or officer.

(4) Every person who contravenes the provisions of this section shall be guilty of an offence and shall be liable, on conviction, to a fine not exceeding five hundred ringgit or to a term of imprisonment not exceeding three months or to both.

Sec. 35A (1) Every registered society shall at some date not later than eighteen months after the registration thereof and subsequently once at least in every calendar year at intervals of not more than fifteen months lay at its annual general meeting:-

(a) trading and profit and loss accounts for the period since the preceding accounts or, in the case of the first accounts since the registration of the society, made up to a date not more than six months before the date of the meeting;

- (b) a balance sheet as at the date to which the accounts are made up;
- (c) a report signed by or on behalf of the Board with respect to the state of affairs of the registered society and if the registered society has a subsidiary or subsidiaries, with respect to the state of affairs of the registered society and of all its subsidiaries;
- (d) the auditor's report referred to in section 35c.

(2) The accounts and the balance sheet of a registered society duly audited shall be submitted for the approval of the Registrar-General before they are laid at the annual general meeting in such form as may be required by the Registrar-General, and the Registrar-General may, before approving the accounts and balance sheet require a registered society to furnish additional information and documents.

(3) Every trading and profit and loss account and balance sheet laid before a registered society in the annual general meeting including any consolidated profit and loss account and consolidated balance sheet shall give a true and fair view of the state of affairs of the registered society and of all its subsidiaries.

(4) The accounts and balance sheet bearing the approval of the Registrar-General and the reports which are to be laid at the annual general meeting shall not be less than fourteen days before the meeting be submitted to all members.

Sec. 35B (1) Every registered society shall cause its accounts to be audited once at least in every financial year by some person approved by the Registrar-General by general or special order in writing.

Apart from being a legal requirement as stated in the Act, financial statement is also important to various groups within the cooperatives, i.e. the members, the manager and senior management staffs and members of the board. The bank, creditors and members of the public are also interested in the informations made available by the financial statement.

### *Business Account*

The statement of the business account reveals the income and cost of the business from the selling and buying operation, the differences between income of selling and cost of buying is gross profit. Other particulars which are included in this account are sales return, purchase return, operation, expenses, beginning and ending of stock.

### *Profit and loss account*

The objective of preparing this account is to determine the net profit and loss within a certain period of time which is commonly known as the financial years. This account shows all the profit from the main and various operation of the cooperatives. This profit can be compared with all the business expenses which can be considered as bad debt expenses. If the total expenditure is less than income then it will result of the net profit.

### *Distribution of surplus account*

Distribution of the net profit of the cooperative is being mentioned in the section 34 and rules 16 & 17 of the Cooperative Societies Act, 1948 and Cooperative Societies Rules, 1949, respectively.

Sec. 34 (1) The net profits of a society as audited under section 35 shall be subject to the following payments

- (a) one-fourth or such lesser sum as the Minister may determine shall be carried to a statutory reserve fund; and
- (b) such sum as the minister may from time to time determine shall be paid to any educational institution or to any co-operative organisation established for the furtherance of co-operative principles, or to both or to a Co-operative Education Trust Fund established by rules for this purpose:

Provided that there may be deducted from the sum mentioned in paragraph (a) any sum paid pursuant to paragraph (6)

(2) The net profits of a society (including any profits made in past years, which are available for distribution) may after the payments specified in subsection (1), be utilised by the society for all or any of the following purposes, that is to say-

- (a) the payment of patronage rebate or dividend to members of the society;
- (b) the payment of honoraria to office bearers of the society;
- (c) to such extent as may be prescribed by the rules or by-laws, the allocation of monies to any funds constituted by the society; and



(d) not exceeding ten per cent of the net profits aforesaid (after the payments specified under sub-section (1)) to any charitable purpose or any other purpose approved by the Registrar-General.

(3) No patronage rebate or dividend shall be payable to members and no honorarium shall be payable to office bearers except out of the net profits of a registered society.

Rule 16. (1) Every registered society shall form and maintain a statutory reserve fund to which at least one-fourth of the annual net profits must be carried.

Provided that in the case of Labourers' Co-operative Credit Societies in which the by-laws provide that no member may borrow more than 80 per cent of the amount standing to his credit in the books only one-twentieth of the annual net profits shall be carried to the statutory reserve fund.

(2) The statutory reserve fund of a registered society shall be indivisible and no member shall be entitled to claim any specified share in it.

Rule 17. In no registered society shall the rate of dividend paid on shares exceed 10 per cent per annum without the sanction of the Registrar-General.

#### *Balance Sheet*

The balance sheet is divided into two divisions - assets and liabilities or membership fund.

Asset is further classified into fixed asset, current and invisible asset. Whereas liabilities are divided into membership fund, Statutory Reserve Fund, long term liabilities and current liabilities.

#### *Supplementary Notes to the Account*

Notes that are referred to the account are as follows:-

1. Main activity of the business
2. The accounting principles
3. The movement of share capital/subscription and value that have been confirmed by letters.

4. Movement of reserve funds.
5. Long term loans must reveal the following informations:
  - i) Whether it is government loans and date of the approval
  - ii) total loan at the beginning
  - iii) rate of interest
  - iv) matured period
  - v) surety
6. Movement of the saving of the member
7. Bank overdraft must tell the following information:

Limit, rate of interest, maturity period and surety.
8. Classification of fixed asset into its cost or value, depreciation value and whether it is being mortgage.
9. Distribution of statutory Reserve Fund.
10. Detail of investment in special projects.
  - Total cost of the initial project
  - % cost that has been used
  - Whether cumulative cost less than the present valuation.
11. Detail of investment in subsidiaries.
  - name of the subsidiaries and total equity
  - value of fixed asset
  - profit of the subsidiaries
12. Details of investment in quoted shares.
13. Details of investment in non-quoted shares.
14. Movement of loan of the members.
15. Business stock - principles of valuation.
16. Information of debtor and creditor.

17. Long term commitment.

18. Number of staffs.

The Registrar-General in his commentary report to the cooperative regarding the account will also include ratio analysis. Ratio that is commonly used are current ratio and efficiency ratio. Usually every cooperatives have, through their own initiative, make use of ratio analysis.

One of the agenda in the Annual General meeting is approval of Budget for the following year and the maximum loan that can be taken by the Board. In this situation, the Board of the cooperative has it limitation in utilising the cooperative funds and expenditure. Furthermore, in section 33 of the Ordinance, a registered society has to get approval of the Registrar-General in any of its new investment or deposit of its funds.

### **Cooperative System**

#### *Cooperative Law*

Cooperative legislation of Malaysia is based on the "Classical British-Indian Pattern of Cooperation" dating back to colonial times (1948).

This law has been partially revised and updated to accommodate new needs of the existing societies.

A special legislation was promulgated in 1973 to govern Farmers' organisations or rural-based societies, which were considered inadequately covered by the general cooperative law. Special cooperative Development Agencies were established for urban cooperatives, rural cooperatives and fishermen's cooperatives. In addition, special cooperative law exists for Sarawak and Sabah.

In 1981 the German Foundation for International Development in collaboration with the Institute of Co-operation in Developing Countries of the University of Marburg convened a Seminar on "Cooperative Law in South East Asia - a Comparative Approach", where leading cooperative specialists from the Region, both from the movement and from the government side attended and discussed matters related to cooperative law reform in the Region.

The following main recommendations were drawn up during this Seminar:

- The long-term basic concept and principles of government policy related to the promotion of cooperatives and other self-help organisations should be spelled out clearly in the cooperatives law.

- Government should create a favourable socio-political climate for the growth of cooperatives.

- Government policy concerning cooperative development should aim at a gradual and systematic transfer of powers and responsibilities from the governmental agencies in charge of promotion, supervision and audit of cooperative societies to cooperative apex organisations, so as to enhance the long-term development of a self-reliant and self-supporting movement.

- Government should actively and deliberately encourage the formation and the development of cooperative apex organisations to assume the responsibilities of the promotional/advisory, audit and education/training functions of cooperatives.

- Countries in the Region, through their governments, should provide appropriate incentives to cooperatives, especially regarding financial assistance, marketing structure, price structure, and taxation privileges. In the relevant categories, the assistance should be temporary and self-liquidating. Assistance, under specified conditions, should be given through designated agencies.

- To facilitate the promotion of cooperatives, a satisfactory legal framework should be developed accordingly. Such legal framework would recognize the different requirements for cooperatives as well as pre-cooperatives as registrable organisations.

Major changes will be made soon to the Co-operatives Act to ensure co-operatives are well managed.

While the revamp enables co-operatives to expand their operations, there will be "checks-and-balances" to detect possible mismanagement.

The Co-operative Development Department would have wider power under the amendment to investigate and prosecute. The department at present refers such matters to the police.

Another amendment would allow co-operative members to decide on investments at their general meeting. The approval of the Registrar of Co-operatives would not be necessary.

### **Scope of Its Business**

#### *Credit Cooperatives*

Cooperative credit societies have formed the basis of cooperative development in Malaysia. The prevalence of credit cooperatives in the rural areas can be related to the demand for institutionalised credit not only to satisfy the credit needs of primary producers but also to needs of farmers and fishermen, ranging from consumption credit required for crop cultivation to credit required for improvement and development purposes. Credit cooperatives were at first set up to mobilise local savings with the sole aim of providing seasonal or short-term credit, leaving the secondary or tertiary cooperatives to generate and attract funds for medium and long-term credit.

The subsequent creation of Banking Unions and the Cooperative Bank of Malaysia (also known as Bank Rakyat) were necessary to complement the work of primary cooperatives by providing medium and long-term credit to primary producers. The provision of these important items of credit came at a much later stage when it was realised that the provision of seasonal credit was only temporary solution to rural indebtedness.

Two types of loans are normally granted by this type of society, seasonal loans and medium-term loans. Seasonal loans are given for cultivation expenses, including purchases of fertilizers, and for other current expenses during the interval between planting and harvesting and are payable within one season at harvest (6 - 8 months). Medium-term loan are given for the purpose of paying off prior debts, improving land, purchase of agricultural equipments, building or repairing houses and purchasing property, especially land. The period of repayment is between 3 to 5 years.

#### *Marketing Cooperatives*

When the credit cooperatives proved to be too narrow and unilateral a base upon which to implement rural reconstruction, marketing cooperatives were introduced as a viable alternative. The alternative to the system where the primary producers acted individually required concerted or collective action, and the organisational frame-work present was the marketing cooperative society. The basic function of marketing cooperatives is to provide the incentives of better market returns to primary producers; who would otherwise have

no market incentives. By collectively marketing their produce, there would be some control over the flow of commodities to the market, which would result in higher market prices.

### *Multi-purpose societies*

Having analysed past performances, the Department of Cooperative Development came to the conclusion that it was necessary to change its approach in handling outstanding problems in the implementation of the policy and objectives of cooperative development within the framework of the National Development Plan. A programme of amalgamation of small unit single purpose cooperative was implemented. This new policy has caused the downward trend in the number of the rural credit societies, as explained earlier, and on the other hand has seen the birth of a new type of society - the multi-purpose societies having credit, marketing, processing and consumer supplies as their objectives.

In Malaysia, an agro-based cooperative society is defined by law to mean any cooperative society whose principal objects or main functions concern agricultural production, agricultural credit, marketing or processing or any such commercial and trading ventures.

### **International Collaboration**

Most of international collaboration is done by ANGKASA (Angkatan Koperasi Kebangsaan Malaysia) the apex of cooperative movement in Malaysia.

ANGKASA is a member of Asean Cooperative Organisation (ACO). The latter is the collaboration of apex cooperative organisations at regional level, consisting of organisations representing other member-countries, i.e. Brunei Darul Salam, Indonesia, Philippines, Indonesia, Singapore and Thailand. The main objective of ACO is to voice the views of cooperatives in the ASEAN region in international gatherings and forums.

Apart from being a very active member of ACO, ANGKASA also plays an important role at international level whereby it actively participate in : i) International Cooperative Alliance i.e. ICA (Geneva and New Delhi); - ii) Zengyoren - Fisheries Cooperative movement in Japan; - iii) Freidrich - Ebert - Stiftung (FES) a foundation based in the Federal Republic of Germany; - iv) Cooptrade - a joint project organised by Swedish International Development Agency (SIDA) and - v) International Labour Organisation (ILO).

In all these organisations various seminars, lectures, work-shops and gatherings of international cooperators are held, and ANGKASA as a voice representing Malaysian Cooperative movement participate vigorously.

## **Education and Auditing**

### *Education*

Since the inception of cooperatives in this country in 1922, there were no formal programmes on cooperatives education and training, only a certain amount of education and training was provided by the supervising officers of the Cooperative Department on an adhoc basis. With the growth in number and activities, there was a felt need for formal assistance from the Colonial Welfare and Development Fund, the Cooperative College of Malaysia was established.

The functions of the College is to develop and promote cooperative education and training in order to meet the needs of cooperatives in the country as well as the personnel of the Government Agencies supervising these cooperatives.

Besides the Cooperative College, the Farmers' Organisation Authority and Fisheries Development Authority also has it's own training programme for it's officers, mainly in specialized fields such as technical and policy matters. At the same time several big cooperative societies, such as Malaysian Cooperative Insurance Society send their staffs to various professional institutions for training on insurance, banking, computer and other professional and technical areas.

ANGKASA and the Cooperative Development Department also conduct their education and publicity programmes for cooperators from time to time, in most cases collaborating with the College.

The various cooperative institutions have therefore to put in extra efforts in developing a systematic cooperative education and training approach for the future of the cooperative movement in this country.

### *Auditing*

Accounts of all cooperative societies are required to be audited. Unlike companies, all cooperative societies' accounts that have been audited have to be submitted to the Registrar-General of Cooperative Societies for approval

before they can be tabled at annual general meetings. The duty to have the accounts audited rests with the societies themselves. Section 35B(1) of the Act states that

“Every registered society shall cause its accounts to be audited once at least in every financial year by some person approved by the Registrar-General by general or special order in writing.”

Notwithstanding the above arrangements the Registrar-General may at any time on his own motion or on the application of a registered society audit or cause to be audited the accounts of any registered society.

Auditors of any registered society shall report to the Registrar-General and the registered society on the trading and profit and loss account and balance sheet including consolidated profit and loss account and consolidated balance sheet of the society. They must state their opinion as to whether the accounts are prepared in accordance with the Act and that they reflect the true and fair financial position of registered society.

In order to be able to express an opinion, the auditors involved are given the right of access at all times to the accounting and other records, including registers of the registered society.

All auditors of cooperative societies must be well versed in the contents and spirit of the Cooperative Act 1948 if they are to confirm that the accounts of the registered societies comply with the Act. Hence auditors must ensure that they are up to date all the time with all the circulars issued from the office of the Registrar-General.

The Registrar-General has his own staff to audit cooperative societies. However, the continual increase in the number of cooperatives every year and the increase in the complexities of their business have over stretched the capacity of the Registrar-General to audit all cooperative societies. Accordingly cooperative societies are allowed to engage private auditors from among auditors that have been approved by Registrar-General.

Rule 20A(1) of the Act says that any person may apply to the Registrar-General to be approved specially or generally to audit the accounts of a registered society or registered societies. For the person to be approved the Registrar-General must be satisfied that such person is a fit and proper person and competent to audit cooperative accounts.



## **PROBLEMS AND TASKS OF AGRICULTURAL COOPERATIVES**

Highlighted here are some problem areas with regard to the parallel existence of both Farmers' Associations and agro-based cooperative societies within the same farming locality in the rural sector :-

i) the existence of Farmers' Associations and Cooperative Societies within the same farming locality, serving similar farmers, often having similar objectives and activities and yet subjected to different ministerial policies, supervised and serviced by different departments, has created a sense of confusion and uncertainty among farmers with regard to Government objectives and policies;

ii) the cooperators feel that they are being unfairly treated by Government in comparison to Farmers' Associations for the latter particularly in the initial period enjoyed the various Government subsidies and professional support which help to boost their image and attract farmers away from the Societies;

iii) there are strong indications that a number of cooperative societies are feeling insecure and uncertain of their future with the establishment of Farmers, Associations in the vicinity of their areas;

iv) the Farmers' Associations would be facing difficulties in expanding their activities into fields where they would be competing with the societies for the same clients. Competition among farmers at the ground level is unhealthy for it would invariably divide them and lead to unnecessary conflicts;

v) From the farmers own observation, the more serious conflicts are among Government departmental ground officials who are too enthusiastic in projecting the images of their respective organisations. Departmental conflict at the farmers' level has by all means to be avoided for it would undermine confidence in Government leadership;

vi) The District Agricultural Assistants and Junior Agricultural Assistants as Farmers' Associations' officials are too involved with the running of the Farmers' Associations that adequate extension services are not being made available to non-Farmers' Associations members, e.g. the cooperative societies. The administration of credit and other Farmers' Associations office activities are taking a lot of time and efforts of these extension workers;

vii) There are many farmers who are members of both organisations, reaping the advantages that could be gained from both. There are instances of

farmers obtaining credits from both Farmers' Associations and cooperative societies without having the capacity to even repay one; and

viii) The continued existence of these two organisations side by side, in their present form would weaken both of them and be in a potential divisive factor among farmers.

From the above, it is feared that rural development activities may be in danger of being slowed down by conflict and competition between the grassroots institutions and official agencies that are separately concerned with different aspects of rural development unless this trend is halted, it could multiply the achievement of the targets of the national development plan insofar as rural development is concerned. There is a counter-productive conflict between the cooperatives and the farmers' associations. There is a counter productive conflict between the cooperatives and the Farmers' Associations. There is locational overlapping of areas of operation, there is also functional duplication. The horizontal conflict between the Farmers' Associations and the cooperatives because they serve the same farmers and draw more or less on the same pool of leadership-potential, has led to a sense of social insecurity, political tensions and a loss of motivation for progress. This wasteful competition, if left unattended to, can weaken both parties and thereby prevents them from maximising the returns/margins to farmers. By this general weakening of the farmers' own institutions through competition and conflict, the exploiting rural middlemen are made relatively more powerful.

#### *Strategies for the Promotion of Farmers' Cooperatives*

i) *Integration of Farmers' Associations and agro-based co-operative societies into farmers co-operative to serve a clearly defined area of operations:*

The passing of the Farmers' Organisation Act, 1973, which provides for the integration of Farmers' Association and the agro-based cooperative societies which exist in the same farming locality, provides a watershed in the history of cooperative development in Malaysia.

While existing multi-purpose Farmers' Associations and agro-based co-operative societies have been able to mobilise human resources towards more active agricultural and economic development, there was some service activities and conflict of policies and programmes between the two grassroot institutions. Such competition and conflict could lead to serious wastage of financial resources and manpower, thus endangering and slowing down the steady pace of development and economic progress already generated under the First and Second Malaysia Plans.

The newly established and restructured FARMERS' COOPERATIVES which constitute the Farmers' Association and agro-based cooperative societies within an organic area will undertake a more extensive role than what has been performed by either of the two organisations separately. They will no longer be merely beneficiaries of services but will be instrumental in expanding the economic activities and agricultural programmes of the farming communities. Each Farmers' Cooperatives will be larger in size with about 2000-3000 members of farm families. It will have a team of management personnel headed by a General Manager who will be responsible for the day-to-day operations and management of the farmers' cooperative activities. The policy-making powers of the farmers' cooperative will be vested with the farmer-Board members elected by the farmer-members once every 2 - 3 years.

The Farmers' Organisation Authority has already identified 193 farmers' development areas, where an equivalent number of farmers' co-operatives will be established. The cornerstone of the establishment of these farmers' cooperative will be the full integration between the area Farmers' Associations with the constituent agro-based cooperative societies which exist within the same development area. The properties, other assets and the liabilities of these institutions will be valued by independent valuers before they are fully integrated. Simultaneous with this process, the Farmers' Organisation Authority will mount liquidation proceedings on cooperative societies which have very low organisational profits because their accounts show arrears of auditing due to poor management, the size of sundry debts to members and non-members and the degree to which these debts have been recovered and that the financial position of the society as measured by the society's own capital has removed all the vestiges of financial autonomy that any cooperative society should possess.

ii) *The recognition by Government that farmers' co-operatives should be the key institution in rural development :*

The newly emergent farmers' cooperatives should be regarded by the Government as its key institutions in rural development. Government agencies and departments should utilise farmers' cooperatives as instruments in the implementation of agricultural small holders policy; as the focal point for generating agri-business activities and the bridge between the Government and the small farmers in extension and other mobilization activities.

iii) *The implementation of integrated rural development policies :*

As rural development may be regarded as a circulatory system, it is desirable that the services and assistance rendered by agencies directly in-

volved in farmers' development should be co-ordinated through the farmers development centre which forms the administrative centre of the Farmers' Organisation Authority at the grassroots level. This is crucial in order to achieve complete co-ordination of efforts on the ground level. The Farmers' Development Centre in each farm locality is centrally and conveniently located and easily accessible to all farmers in the area. It caters for the multifarious needs of farmers, and multi-purpose in function so as to enable farmers to obtain all services. In other words, the centre is the focal point where all relevant development agencies can operate in a coordinated manner. The Farmers Development Centre is a kind of "clearing house," providing facilities for the efficient operations of several development agencies.

*iv) The organic areas of operations of the farmers' cooperatives may perhaps be considered as the monopoly areas of Farmers' Cooperatives in respect to certain activities :*

Legal provisions for the declarations of designated farmers development areas already exist under section 10 of the Farmers' Organisation Authority Act, 1973. Viable and efficient Farmers' Cooperatives could be granted a monopoly position within a designated farmers' development in regard to agri-production and certain agri-related activities which may be specified from time to time. Farmers' cooperative should also be given first claim or priority to expropriate idle rural lands for agriculture production, cottage industries, and business purposes. Farmers' cooperatives should also be given preferential rights to supply paddy, rice and other agricultural commodities produced by members of the cooperatives to state and other agencies administering price stabilization programmes.

*v) There should be positive vertical integration between farmers' cooperatives in relation to production and supply of agricultural inputs and marketing of farm produce :*

Farmers' cooperatives should be encouraged and supported in order for them to be integrated not only horizontally but also vertically especially in regard to production inputs and the marketing of farm produce. Vertically integrated approach in the production and supply of farm inputs at fair prices to farmers while a vertically integrated marketing system will serve to remove a substantial number of intermediaries between the producer and the consumer. As a first step, efforts must be instituted to have efficient coordination between the urban cooperatives and farmers' cooperatives where farm produce both fresh and processed can be channelled to the consumers.

## APPENDIX

### GROUP MARKETING OF PINEAPPLES AT PARIT TASRIF, PONTIAN, MALAYSIA

My name is Duki bin Kasdi. I live at Parit Tasrif Village which is about 10 miles from Pontian town. Before reaching the village we have to go through 8 miles of public road and 2 miles of farm road. I have been living in this village since I was born in 1939 and I am 42 years old now. I live with my wife and 7 children and also my parents, altogether 11 in the household. My education is up to standard 4 in a Malay Primary School. Five of my children are still schooling, some in a primary school and some in a secondary school. Both of these schools are about 1.5 miles from the house.

This Kampong (village) was started by two newcomers in 1927. From year to year the population increased and up to now there are 350 people from 60 farm families. All the residents are of Malay origin though the majority are from Bugis and Javanese groups. We are all descendents from our grandparents who migrated from Indonesia. Even now the Bugis and Javanese dialects are still being used apart from the Malay National Language. Nearly 95 percent of the population here have their livelihood dependent on agriculture. The village occupies about 4 square miles. The soil condition here is nearly all peat soil. I started to improve my own livelihood and be on my own about 22 years ago. In the beginning I inherited 3 acres of land. The land is planted with rubber. In view of the fact living conditions are such a challenge, I began to diversify into the cultivation of other crops. Just to depend on rubber is not sufficient. Tapping the 3 acre rubber holding is my permanent occupation every day, and in the afternoon I use my spare time to cultivate cash crops like chilly, cabbage, ginger and onions. Apart from these, I also plant some pineapples (red variety) on rented land. From the result of my efforts, I now own an additional 11 acres. It is my hope to improve further all these efforts which I have started. In addition, I would like to encourage and provide moral support to other farmers.

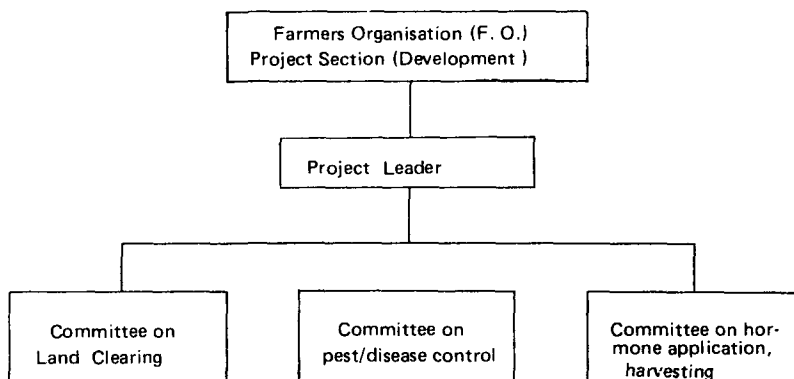
With this success, I started to plan a proper agricultural system to make sure that the success would be further enhanced and could be enjoyed by the whole farming community in the village. I started this system since 1978 beginning at the farm level; that is, to make sure that all the produce is of high quality. Second comes transportation. I bought a station wagon to transport all the agricultural produce. Lastly comes marketing. With these 3 important factors, I have been commuting twice a week to Johor Bahru market which is 47 miles away to market and sell all my own agricultural produce and also those from other farmers.

In this village, we had set up a small agricultural unit called Parit Tasrif as far back as 1973. This unit is under the administration of Pontian Selatan

Farmers Organisation (F.O.) which has its office in the Farmers Development Center, Jalan Parit Masjid, Pontian, 19 km away from here. This organisation is like a “mother” body to us in helping to improve the agricultural sector. Apart from the services provided by the F.O. also carries out a number of business activities which are connected with the needs of farmers. Examples of these are development projects, credit, savings, marketing and supply of agricultural inputs. This concept of service and business which is being practised by the F.O. is different from other bodies which are more interested in making profit.

Because the land here is of peat and since it is suitable only for cultivation of moris and red pineapple varieties, it was thus planned in 1979 to have a pineapple (variety moris) project on a group basis. An amount of M\$14,400 was provided. This project was started on farmers' land totalling 23 acres. There were 9 participants. Input supplies such as suckers, insecticides, weedicides and fertilizers were provided. I was appointed to be chief in this project. Each acre was provided with 8,000 suckers worth M\$328,2 gallons of paraquat worth M\$66,1 pack of krover worth M\$82,2 bags of urea worth M\$57,2 bags of mixed fertilizers (30:1:32) worth M\$45.50,2 bags of lime worth M\$16, 3.125 kg. of trosi (copper sulphate) worth M\$7.40 and 2 tins of Auxin Anna worth M\$ 22.80. The value of the allocation came to M\$634.70 per acre.

At the initial stage I had a number of meetings with the participants and officers from the F.O. to determine when the project could be started. All works such as land clearing, planting and fertilizing were done by the farmers themselves. I only helped to make sure all work followed the schedule. Three committees were set up by the participants, each one of them being assigned to one of the committees: namely (a) land clearing, (b) pest/disease control and (c) hormone application, harvesting and other works. The committees helped me as project leader and officers from the F.O. to control and supervise the project. The organisation set-up was as shown below:



Each committee was managed by 3 members including the unit chief. The aims were :

- (a) to facilitate supervision, and extension,
- (b) to help participants discuss their problems,
- (c) to serve as a communication link with the F.O. through the unit chief,
- (d) to facilitate supply of agricultural inputs to the farm level.

As a project leader I was fully responsible to manage the project. The responsibilities given to me were :

- (a) to follow all the instructions given by the F.O. on the schedule for planting, fertilizing, hormone treatment, harvesting, etc.,
- (b) to bring problems relating to pineapple production and other matters to the F.O.,
- (c) to provide guidance to the participants on pineapple grading,
- (d) to receive payments from sales of pineapples on behalf of participants.

The committee which has to do with marketing was the committee on hormone treatment and harvesting. The main duties were :

- (a) to determine the schedule for hormone treatment,
- (b) to give instructions to participants to follow the schedule for hormone treatment,
- (c) to recommend good quality hormone. Usually Anaac (Alpha Naphthyl Acetic Acid) is used: 1 tablet for 1 plant,
- (d) to determine the quantity of pineapples to be harvested for each lorry load,
- (e) to ascertain young fruits or over-ripened fruits or poor quality.

The selling stage commenced after the project was implemented for 11 months. At this stage I played an important role together with an officer from the F.O. in determining the schedule for the pineapples to be marketed. After the schedule was determined, the officer and the lorry from F.O. came to my place. All the pineapple fruits had to be graded before being loaded into the lorry. The fruits (moris variety) are marketed to Singapore because the market is guaranteed and the price, following grade A, B and C, is also good.

After the scheduled time was determined, the participants plucked the fruits that were ripe. Ripe fruits will have 5 to 6 "eyes" turning reddish yellow. There are fruits which have not changed colour but are already plucked. The harvested fruits have 1/2 foot stalk remaining. This is to prevent the fruits from rapid deterioration and also to facilitate handling.

The fruits are bought from the farm to the various collection centres located about 1.5 miles away. For each harvest, 5 labourers are used. Two of them are to harvest the fruits and collect them at the road side of the farm. The cost for hiring each labourer is M\$15. For carrying the fruits, another 3 persons are required. The fruits are transported by bicycles which have special wire nettings to hold them. Each bicycle can carry about 170 fruits. The cost for carrying each bicycle load is M\$3.50.

The fruits are collected at a place which is accessible by the F.O. lorry. The fruits are classified by the farmers themselves according to the following grades:

Grade	Length	Height
A1	more than 12 inches	more than 3 kati
A	10 - 12 inches	2 1/2 - 3 kati
B	8 - 10 inches	2 - 2 1/2 kati
C	6 - 8 inches	1 1/2 - 2 kati
D	6 inches	less than 1 1/2 kati

Note : One kati is 1.33 pounds

The maximum numbers of fruit which can be loaded in a 8 ton lorry is about 2,500 fruit. Usually between 2 to 3 participants share a lorry. The fruits are graded according to each participant's production. The purpose for grading is to facilitate selling to the wholesaler. The fruits which are graded by the farmers will again be graded by the F.O. This is done by the lorry drivers. They have considerable experience and skill in doing this. Temporary receipts are issued to each producer. This is based on the numbers of fruit for each grade.

The fruits are sent to the wholesaler in Singapore. The fruits are again graded by the wholesaler in the presence of F.O.'s employees. Rotten fruits are not accepted. The F.O. does not receive cash payment straight away. Payment is received at the time of the next consignment.

The farmers who sell the fruits receive their payments 2 to 3 days later. Each participant or the project leader collects the payment on behalf of other participants. The price, which is fixed earlier, is determined by the buyer. The buyer has to depend on the market price and quality of fruits. However, because the F.O. is the permanent supplier there is not much fluctuation in the price.



The general price for the fruits are as follows :

Grade A1	=	40 - 45	cts/fruit
Grade A	=	30 - 39	cts/fruit
Grade B	=	18 - 22	cts/fruit
Grade C	=	8 - 12	cts/fruit
Grade D	=	5 - 7	cts/fruit

The F.O. makes payments to the farmers after making various deductions for transport cost to Singapore, loan repayment, commission (about 1 cent per fruit), etc.

The organisation for these 3 levels can be shown below:

receive payment according to market price	Farm (farmers)	Produce quality fruits which are collected at collecting centre
makes deduction for transport cost, loan, commission, etc.	Farmers Organisation	provides transport, carries out grading and marketing
make payment according to fruit quality	Buyers	receive the fruits

In the marketing of pineapples at these 3 levels some problems have arisen. Among them are :

*a) Field-level*

- i) Over-ripe condition of the fruits when they are plucked at the farm. This will hasten deterioration and hence lower their quality. The wholesaler will not like the fruits.
- ii) Farms which are located far away will have the fruits transported further. This will result in some spoiled fruits.
- iii) Farmers are not able to keep to the dates which have been fixed. It is possible there is bad weather or farmers have other things to attend to. Fruits cannot be plucked and this will upset the transport arrangement of the F.O. and also lessen the confidence of the wholesaler to the F.O.

iv) Too many fruits are plucked which cannot be taken by the lorry. The remaining fruits have to be marketed on subsequent days. The fruit quality is bound to deteriorate.

v) The condition of the farm road is not good. Farmers are forced to bear additional costs.

*b) Farmers Organisational level*

i) The F.O. is forced to make advance payments to the farmers for the fruits which are marketed.

ii) There are farmers who are not too happy with the low prices offered. This is because too many fruits are rejected or there have been some errors in counting the fruits.

*c) Wholesaler level*

i) The wholesaler in Singapore regrades the pineapple fruits. Sometimes, there are differences in the grading. Usually grade A fruits will go to grade B and grade B to grade C.

ii) There are also differences in the number of fruits. This is difficult to determine whether some mistakes have been made at the farm or at the wholesaler level. When this happens, farmers are likely to get a low price.

iii) The wholesaler is not able to pay cash for the fruits delivered.

iv) The wholesaler rejects fruits which are too young, over-ripe, spoiled and of poor quality. This will reduce the number of fruits sent.

v) During the peak season, the price will come down.

Various efforts have been made to overcome the problems facing the farmers. Cooperation at the farm level and by the management is necessary. Such cooperation includes :

i) To be more certain on the timing of their production at the farm level.

ii) To send quality fruits according to the requirements to the wholesaler.

iii) To send fruits according to a fixed schedule.

- iv) To liaise more often with the unit chief so as to discuss problems.
- v) To be more careful in counting the fruits.
- vi) To bring the fruits as quickly as possible to the wholesaler so that fruit quality will not deteriorate.
- vii) To acquire more wholesalers for moris variety pineapples.

For each sale the farmers are able to receive about M\$300 after making deductions for transport expenses to Singapore (about M\$100) and labour costs (M\$60). If planning follows the schedule, the fruits can be harvested once every 3 months. This means the farmers will get an additional income of about M\$ 100 per month. Most of the farmers who plant the moris variety pineapple are rubber tappers. In my case, I get a total income of about M\$7,000 a year.

The success of this project has become an example to other farmer members to change their small cropping pattern to one that is having a proper system of cropping, production and marketing. It is here that we need small agricultural unit groups to carry out group projects which can be profitable.

In order to promote agricultural activities on a wider scale in this village, I have tried to interest other members to obtain sources of fund from other financing agencies like banks. With the interest on an success of this project one new project has also been carried out. This is known as the "Pineapple Credit Scheme". The variety cultivated is the "red" variety. This is a pilot project of both the Agricultural Bank of Malaysia and the Pontain Selatan F.O. The fund is provided by the Bank and the co-ordination work is handled by the F.O. which became the local credit centre. This project has 7 participants working on 30 acres and a fund of M\$7,825. The loan is to pay for expenses which are not covered by the subsidy from the pineapple rehabilitation unit.

This project is also meant to follow a system of channelling credit known as supervised credit. Up to now 85 per cent of the participants have succeeded and have paid off the credit taken. With such kind of project, the members are able to learn how to manage group projects systematically and successfully. They are able to follow a schedule which has been planned. This includes planting, fertilizing, hormone application and the use of modern techniques and correct methods. Apart from this, studies can be carried out by the participants themselves on the high cost of expenditures and income which they can get. From this the farmers and I are able to evaluate whether

this project is going to be profitable or otherwise.

With the completion of many agricultural projects under the West Johore Integrated Project, I believe agricultural development can be doubled especially when there are improved and more accessible farm roads to bring agricultural produce from the hinterlands. With this, farmers in the area will be able to have more income because of lesser transportation costs. I believe more farmers will be interested in modern agriculture. With a proper system and programme and with the encouragement from government agencies, I feel we farmers will have better success in the future. As an example, through processing rubber on a group basis and by providing good quality control, a good and stable market has been achieved. Before we were experiencing low prices; with this system the problem will not arise again. Apart from this, we all have been able to instill a spirit of co-operation and extend mutual help to one another.

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# The Present Situation, Problems and Future Tasks of Agricultural Cooperatives in Philippines

## I. HISTORICAL BACKGROUND

Cooperatives in the Philippines is as old as its culture. It spans centuries of human existence from its pristine form of mutual assistance to what we call in the native tongue, the Bayanihan". Cooperation, however, as a system which seeks to harness the limited resources of people of small means and opportunities for more pronounced economic as well as social ends, as we know it today, was first introduced in the late 1880's. Dr. Jose Rizal, our national hero, who is said to have inspired by the cooperative idea during his travels in Europe, organized in 1898 a Marketing Cooperative among the farmers of Dapitan during his exile in the area.

Subsequent attempts to introduce cooperatives in the country were mainly through government initiative and effort. Cooperatives were established only after the Philippine government had enacted enabling laws which called for their organisation with government aid, financial and otherwise.

In 1907, a bill providing for the organization of rural credit cooperatives was presented in the first Philippine Assembly. The bill was ostensibly intended to help the people in the rural areas overcome the stranglehold of usurers who even then were already impoverishing the people. Although this bill was approved by the Philippine Assembly, the same was disapproved by the Philippine Commission which constituted the upper chamber of the Philippine Legislature. In 1914, however, a similar bill was presented before the Philippine Assembly and this time it was able to go through both houses of the Philippine Legislature and was enacted into a law on February 5, 1915 as Act No. 2508, otherwise known as the Rural Credit law. The administration of the Rural Credit Law was entrusted to the Bureau of Agriculture. Under this law the Rural Credit Cooperative Associations were organised to accumulate funds by way of cooperation in order to extend credit to their members at reasonable terms for exclusively agricultural operations. The amount of funds available to farmers was dependent initially on the amount saved. However, in 1919, Act No.

2818 was passed and provided an appreciation of P1 million for rice and corn production to members of rural credit associations. At the end of 1926, there were 544 rural credit cooperatives organized in 42 provinces.

While the rural credit associations were designed to help finance the productive efforts of the farmers, there was at the same time the need to provide incentives to the farmers to produce more through an efficient machinery for the profitable marketing of their produce. The Cooperative Marketing Law (Act No. 3425) was, therefore, enacted and approved on December 9, 1927, entrusting the Bureau of Commerce and Industry with the responsibility of organizing farmers into marketing cooperatives.

In 1939, the total number of rural credit cooperatives reached its peak of 570 associations with an aggregate membership of 105,000 individuals and resource of P3,376,400. In addition, records show there were 160 cooperative marketing associations with a total membership of approximately 5,000 farmers. The apparent weaknesses of the rural credit cooperatives diminished the enthusiasm of farmers to organize themselves into marketing associations.

Difficulties encountered with the rural credit cooperatives continued unabated to undermine the organization and growth of marketing associations with only 20 percent of the marketing associations reporting found to be active at the time. The major factors which contributed to the difficulties of these early attempts to institutionalize cooperatives are given as follows :

- a) Lack of education and training, information and practical know-how on the principles, nature and operation of cooperative organizations which led to incompetent management;
- b) Absence of adequate safeguard against unscrupulous officers who took advantage of their positions to grant loans to themselves and their relatives which proved disastrous to the system;
- c) Improper use of credits by the borrowers who utilized borrowed funds for non-prescribed purposes;
- d) Defective securities;
- e) Political interference particularly in the collection of overdue accounts;

f) Inability of cooperatives to secure adequate capital and establish adequate marketing facilities; and

g) Ineffectiveness of the government agency or agencies entrusted with the development and promotion of cooperative organizations and inadequate supervision.

In 1940, the Cooperative Movement gained impetus when Commonwealth Act No. 565, otherwise known as the Cooperative Law, was enacted, largely due to the interest taken by the President Manuel L. Quezon. This law provided for the organization of all types of cooperative, authorized the creation or designation of a government agency to promote and supervise them, established a National Cooperative Fund, and allowed 15 or more persons to form a cooperative which for the five years of its operation shall be exempt from all taxes and government fees.

In 1941, the National Cooperative Administration (NCA) was established, transferring to it the cooperative function of the NTC, including the National Cooperative Fund. Under the NCA much headway was accomplished along education, and the promotion and organization of cooperatives continued. The progress of the cooperative movement, however, was cut short with the outbreak of the World War II on December 6, 1941.

Another attempt was made during the Japanese Regime to revive the Cooperative Movement as a means of helping the masses. Largely through the initiative of the then Minister of Economic Affairs, Hon. Pedro Sabido, efforts were exerted to organize consumers' cooperatives to help ameliorate the economic sufferings of the people especially those living in Manila. Such was expected from the movement due to the intensive training of the Managers, under the direction of Dr. Pablo N. Mabbun, but the program was cut short with the arrival of the liberation forces.

In 1950, the Cooperative Administration Office (CAO) under the supervision of the Department of Commerce and Industry was created and charged with the function of promoting, organizing and supervising cooperatives.

The creation of the CAO established the government agency implementing three cooperative laws, namely; (1) the Rural Credit Cooperative Association Act; (2) the Cooperative Marketing Law; and (3) the Cooperative Law. The devastation wrought by the war upon the economy imposed untold economic hardships among the population giving rise to social

discontent and eventual dissidence. The Government embarked on various programs to restore the economy to normalcy and this included special measures for cooperatives. One of these measures was the creation of the Agricultural Credit and Cooperative Financing Administration (ACCFA) in 1952 by virtue of Republic Act No. 821. The ACCFA was established to administer an agricultural credit and cooperative financing system which would function to assist small farmers in securing liberal credit; to promote effective groupings of farmers into cooperative associations and enable them to market their agricultural commodities efficiently; and, to place agriculture on a basis of economic equality with other industries.

One unique, almost radical innovative feature of RA No. 821 was the extension of credit to farmers without collateral except their productive capacity. This large scale program of rural financing was to be carried out through various types of loans; each loan designed to serve a specific need of a farmer or of a cooperative. As a matter of policy ACCFA extended loans only to members of Farmers' Cooperative Marketing Associations (FACOMAS).

The ACCFA was heralded as a program that would finally emancipate the farmers from the iron grip of exploitative usury and establish a producer-controlled marketing system to free the small farmers from the clutches of the middlemen-traders who controlled the marketing of farm crops and consequently reaped the greater part of the value of the fruits of the farmers' toil.

By the end of the first five years of the program, 455 FACOMAS were organized and operating. These had an aggregate paid-up capital of P3,125,007.79 and they represented 259,027 farmers in 10,700 barrios in 50 provinces. During the fiscal year of 1956-1957, the FACOMA system handled a volume of business of P98 million worth of production inputs and P6 million worth of consumer goods.

If the rise and expansion of the Movement was fast, the swiftness of its decline appeared faster. Fiscal year 1958-1959 saw a drop of loans extended from P44 million the previous year to P14 million, and finally in 1960-61, an all-time low of loans to farmers registered at P1.8 million. On the part of the FACOMA network, repayment of loans went down to 28 percent in 1960.

Between 1960 to 1963, attempts at revitalization of both the Cooperative Movement and the ACCFA proved futile. The problems met in the



revitalization efforts were summed up in 1961 report of the ACCFA as follows :- <sup>1</sup>

“The revitalization program started against tremendous odds of skepticism and cynicism that had accumulated and hardened in previous years. In many FACOMAS, directors and managers had established vested privileges in the cooperative so that it was not easy to change them; moreover, honest members tended to shy away from their cooperatives for fear of being in one way or another implicated in cases of irregularities that had been committed in previous operations. Losses in previous ventures also had but extinguished members' faith in the ability of their cooperatives to promote their members' social and economic interest.”

The low repayment rate of borrowers, a factor found to be one of the program's greatest impediments, is attributed to the low debt-repayment capacity of farmers due to unfavourable farm business and poor loan administration. With the failure of the credit function, the marketing operations also suffered. Delinquent borrowers did not deliver their crops to the FACOMAS, and the volume of marketing business declined as the clientele was severely limited to non-delinquent borrowers and non-borrowers. Many FACOMAS were found to be loosely organized and financially incapable of assuming risks associated with the loaning operations nor cope with the unfavourable external competition.

It was against this background that the ACCFA was reorganized and renamed the Agricultural Credit Administration (ACA) in 1963 by virtue of Republic Act No. 3844, otherwise known as the Agricultural Land Reform Code. The promotion and organization of agricultural cooperatives was shifted to the Agricultural Productivity Commission (APC) in addition to its functions of providing marketing, management and other technical services to agriculture. The ACA retained the functions of supervision and credit extension services to agricultural cooperatives.

These legislative changes, however, did not produce encouraging results. The varied problems of the agricultural cooperative movement were

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<sup>1</sup>ACCFA Report to the President of the Philippines Agricultural Credit and Cooperative Financing Administration 1961.

assessed in 1969 as follows :

The string of failure in the past coupled with those obvious causes of mismanagement and mis-supervision had disenchanted the people from the Movement. Those who were never members but had nevertheless known of the failures were likewise difficult to attract for membership.

Since FACOMAS in general were promoted and organized as channels for liberal credit to farmers, the members became loan-oriented. Farmers looked upon their FACOMAS as credit agencies not as a marketing arm of their produce; their participation became solely dependent on the availability of loan funds from the ACA, thus gearing the life of cooperatives on financial support.

The lack of competent management weakened the ability of cooperatives to operate as business oriented enterprises. Dedicated and well-educated leadership existed at a minimum, and the inadequate compensation offered made employing capable managers for cooperative ventures near impossible.

Many so-called "active" FACOMAS operated on sub-marginal volumes of business and continued to incur losses, thus consequently failing to provide essential services to members.

The resources of ACA were insufficient to meet the credit requirements of farmers and cooperatives alone, within which the loaning program of ACA was confined, ACA resources were found inadequate. In 1967, out of a total number of 217 "active" FACOMAS, ACA was able to serve only 99 FACOMAS and their members.

Under the administrative set-up, the APC provided services for the promotion and organization of agricultural cooperatives; the ACA regulates and extends financial assistance; and the Securities and Exchange Commission registered cooperatives. All three agencies exercised some degree of supervision, giving rise to confusion and a general lack of coordination. Moreover, the situation became compounded by the number of laws governing agricultural cooperatives; the Rural Credit Cooperative Law of 1914, the Cooperative Marketing Law of 1952 and the Land Reform Code of 1963.

In 1970, a legislative measure (House Bill No. 886 and Senate Bill 434) on cooperatives development was filed. The measure provided for a unified state policy on cooperatives, an organic law, a cooperative insur-

ance system, a cooperative banking system, a cooperative wholesale society.

In mid-1972, the proposed cooperative legislative measure was approved with amendments by the House of Representatives as H.B. 3501. The bill, however, was not further acted upon as a result of the abolition of the Philippine Congress by virtue of the proclamation of Martial Law.

The proclamation of Martial Law on September 21, 1972, paved the way for major social and economic reforms which incorporated the cooperative program in the Integrated Reorganization Plan of the Government under P.D.No. 1.

P.D. No. 1 created among others the Department of Local Government and Community Development (DLGCD); converting the Presidential Arm on Community Development (PACD) into the Bureau of Community Development; creating the Bureau of Cooperatives Development (BCOD), abolishing the CAO and the Cooperative Division of the Agricultural Productivity Commission and transferring their functions, personnel, assets and funds to the BCOD. It also created the Bureau of Local Governments. All of these three bureaus were created as staff bureaus of the DLGCD.

The novel development approach ushered in the need for strategic interplay between the three bureaus: community development as a catalyzer for attitudinal change through informal group actions; cooperative development as builder of economic institutions to serve the people's needs (e.g., credit, production, marketing, consumption and services), thus raising productivity and incomes and generating employment in both the rural and urban areas; and culminating into local government development to improve the quality of the political base of the country.

The President declared on September 26, 1972 the entire Philippines as Land Reform Area as the imperatives or urgent social reforms became paramount for rapid transformation of the country's agrarian structure. The economic condition of the country reflected the lives of the masses, a great majority of whom were dependent upon the cultivation of the land as their major livelihood, but, were the objective of exploitation by usurious money lenders and traders and in many cases by the landlords.

On October 21, 1972, the President decreed (PD 27) the emancipation of the tenant-farmers from the bondage of the soil transferred to them the ownership of the land they were tilling on three conditions: a)

that they should pay for the lands in 15 yearly installments; b) that they be members of cooperatives; and c) that their cooperatives should guarantee their land payment amortizations.

In support of the Agrarian Reform Program, the President issued on April 14, 1973 P.D. 175 providing for the "Strengthening of the Cooperative Movement". The premier provisions for this decree declares it to be "the policy of the State to foster the creation and growth of cooperatives as a means of increasing income and purchasing power of the low-income sector of the population in order to attain a more equitable distribution of income and wealth."<sup>2/</sup>

Under a new climate of reforms, the development of cooperatives was envisioned to : 1) prepare the farmers to become producers; 2) enforce timely payment of land amortizations; 3) enforce saving among farmers; 4) encourage farmers to perform activities collectively, and 5) develop marketing outlets for farm products. The cooperatives was meant essentially to prepare tenant-producers for their new roles as owners of the land they till and provide the farmer-members with economic as well as social securities which were not hitherto given by the landlords.

To carry out the intent of the law, a new program for the development of cooperatives was designed.

The program had for its objectives : a) the development of cooperatives into viable and self-reliant institutions; b) the organisation and development of grassroots level cooperatives c) the federation of different types of cooperatives into business and non-business organisations and ultimately establish an Integrated Philippine Cooperative System. To achieve these objectives, the program provided for the following structured activities; a) Stage I - organization and development of barrio associations or Samahang Nayons (SNs) b) Stage II - organization and development of the Kilusang Bayan or full-fledged cooperatives and the development of the Samahang Nayon - Area Marketing Cooperative - Cooperative Rural Bank (SN - AMC - CRB) triangular linkage; c) Stage III - the establishment of consumer cooperative market in key urban centers; and d) Stage IV - the integration of linkages and coordination of the different components of the cooperative movement.

To operationalize the new cooperative law, Letter of Implementation No. 23 was issued on July 9 1973 providing the guidelines for

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<sup>2/</sup> P.D. 175 (Strengthening of Cooperative Movement), PLDG, 1972.

organizing the various cooperative structure and the capitalization or sources of financial assistance to the cooperatives. The LOI specifically provided for the collection of the Barrio Savings Fund (BSF) equivalent to five percent of the production loan of borrowing members and P5.00 per month for non-borrower and the Barrio Guarantee Fund (BGF) in the amount of one cavan per hectare per harvest season to guarantee payment of loan amortization of members and capitalize full-fledged cooperatives. The LOI also provided for the establishment of the Cooperative Development Loan Fund (CDLF) to provide loan assistance to cooperatives from budgetary source.

The decade of the new cooperatives development saw the rapid growth of SNs in the early years. Studies of the Agricultural Credit and Cooperatives Institute (ACCI) in 1980 revealed that more and more farmers were losing interest in the SNs, only some 39 percent of SNs were enforcing the BSF/BGF, of which many were not remitting the collections; discipline among members was deteriorating; and SNs were found to be structurally weak and disorganized.

As sorted out from studies and reports, the following difficulties affected the SN development :

- a) Originally, SNs were not allowed by government policy to undertake economic activities to create profits for their members. Restrictions on the membership size and capitalization have also hampered the growth of SNs;
- b) The various committees established to fulfill the multiple long-range goals of the SNs were generally inactive and not effectively functioning due to: (1) declining interest of members and officers, (2) lack of time due to occupational demands, and (3) lack of know-how;
- c) SN's saving/capital build-up performance was below expectations as members viewed the contributions as additional burdens;
- d) Discipline seemed to be a major problem resulting in inadequacies of both members and officers;
- e) Members were ill-equipped to manage the affairs of the SNs and many of the officers were dishonest;
- f) Many of the rural folks did not quite understand and much less ready to apply the new cooperative principles as a way of life.

## **II. GENERAL COOPERATIVE ORGANIZATIONAL/ MANAGEMENT STRUCTURE IN THE PHILIPPINES**

Misunderstanding among people in organizations may be due to inadequate knowledge of organizational and management structures as well as their roles and responsibilities in the duly constituted bodies. In any way it has to be understood that the organizational framework and the principal roles of the members, the board of directors and the hired people in cooperatives are difficult from those non-cooperatives business organizations.

In general, the management structure of cooperative in the Philippines is made-up of three (3) components namely: The general assembly, the board of directors and committees and the hired management. Each component has its own areas of responsibilities and roles. This structure is provided in the model By-laws for cooperatives prepared by BACOD.

### **The General Assembly**

On top of the structure is the general assembly. The supreme authority in a cooperative resides in this body.

The General Assembly is required to meet at least once a year within thirty (30) days after the close of its fiscal calendar year. Holding of General Assembly meeting may, however, be postponed or extended for cause but in no case shall it be beyond sixty (60) days after the close of the fiscal or calendar year.

The General Assembly as defined in a typical cooperatives Articles of Incorporation and By-laws has the following functions, powers and responsibilities :

1. to elect and remove for cause the directors, officer and committee members;
2. to hear and pass upon the reports of the Board of Directors, officers and committees;
3. to make final decisions regarding any drastic change in financial policies subject to legal restrictions;

4. to act as final arbiter in any dispute or disagreement which may arise between or among the members of the Board of Directors and committees, officers and individual members;

5. to decide on amendments in the Articles of Incorporations and/or By-laws;

6. to exercise final authority in all matters vitally affecting the cooperatives; and

7. to exercise all the rights and privileges appurtenant to membership.

### **The Board of Directors**

Beneath the General Assembly is the Board of Directors which is responsible for the formulation of policies, plans and programs for the cooperative and the supervision of management. It acts as liaison between the general membership and management. Its specific duties include:

1. Supervision of cooperative operations and administration

2. Employment of manager and staff

3. Facilitating the provision of bonds and insurance

4. Depositing and withdrawing funds

As a duly constituted body the Board of Directors is responsible for the formulation of policies as well as in the general supervision and control of the affairs of the cooperative with specific accountability to the General Assembly.

The members of the Board of Directors are elected from among the general membership who are of good standing and who have the time and willingness to serve the cooperative. Under Philippine laws, the Board of Directors, must be composed of at least five (5) members but not exceeding fifteen (15) members, and it shall be in odd numbers. In addition to not being a member of good standing, a member may not be elected to the Board of Directors if he/she:

1. Holds any elective position in the government except that of the barrio councilman;

2. Has conflicting interest with the business of the cooperative;
3. Has been absent for three (3) consecutive board meetings without valid excuse;
4. Is full-time employee of the cooperative;
5. Has been convicted of any crime involving moral turpitude, gross negligence or gross misconduct in the performance of his duties or found culpable in any administrative case involving such offenses;
6. Is facing, as a defendant or respondent in an administrative proceeding or with suit involving financial and/or accountability; and
7. Has been associated with any past anomalies in the cooperative.

### **The Election Committee**

Being a democratic institution, a cooperative has an Election Committee (EC). Similar to the Board of Directors, members of the EC are also elected from among the general membership of good standing. Usually three (3) members elected during the assembly meeting comprise the EC. However, bigger cooperatives tend to have five to seven members to handle big turn-outs during elections.

Within ten days after their election, members of the EC are required to choose from among themselves a chairman and secretary. Normally, the committee performs its functions in the next assembly when new elections are held. However, in larger cooperatives, the EC functions when members of the board or any elected officer resigns or file leaves of absences from their posts. The EC's primary function is to supervise the conduct of annual elections, canvass the election returns and certify in writing the election results to the presiding officer of the cooperative.

### **The Supervisory/Audit Committee**

The supervisory/audit committee is responsible to provide general supervision on how top cooperative is run or managed. It is empowered to conduct both financial and management audit. To extent, the supervisory and audit committee serve as the financial and management consultant of the Board of Directors. It orders its reports both to the Board of Directors and the General Assembly.



The supervisory and audit committee is composed of at least three members elected from the general membership of good standing during the general assembly meeting. Within ten days after the election, the members are required to elect their own chairman and a secretary. Unless otherwise provided, members of the committee are expected to serve for a term of one year.

### **The Credit Committee**

In the credit cooperative, a credit committee is part of the basic organizational structure. In other types of cooperatives such as Marketing or Transport or Housing, this committee may be replaced by another committee which shall perform the basic or primary function of that cooperative.

The credit committee shall be composed of three members elected at the annual general assembly meeting. Within ten days after their election, the members shall elect from among themselves a chairman and a secretary. The credit committee shall be responsible for the credit management of the cooperative. The members shall serve for a term of one year or until their successors are elected and qualified and it shall:

1. Process, evaluate and act on loan applications and withdrawal of deposits, except when the applicant is a member of the committee in which case, the application shall be acted upon by the Board of Directors:
2. Exercise general supervision of the loan activities of the cooperative.

### **The Education and Training Committee**

Under P.D. 175, the creation of Education and Training Committee (ETC) to be headed by the vice-chairman of the association was made mandatory to all types of cooperatives. Operating directly under the Board of directors, the number of members of the ETC are to be recommended by the vice-chairman for appointment by the board for one year without prejudice to reappointment in succeeding years.

The ETC in general, is responsible for planning and implementing promotional, educational and training programs of the cooperative for its officers, members and staff. The ETC may be considered as a staff committee of the Board of Directors.

## **The Manager**

The Manager heads the organizational structure that implements the plans, programs and policies of the cooperative as formulated and/or designed by the Board and approved by the General Assembly. The Board hires and appoints the Manager as well as determines his rightful compensation in accordance with the by-laws of the cooperatives.

The Manager may recommend to the Board for appointment the required number of management staff that will assist him.

## **III. AGRICULTURAL COOPERATIVE MOVEMENT** <sup>3/</sup>

The Cooperative Movement in the Philippines has two main components, the agricultural cooperative sector and the non-agricultural cooperative sector. In this paper, the focus of the discussion is the agricultural cooperative sector.

### **1. Supreme Cooperative Council of the Philippines (SCCP)**

Prior to the issuance of P.D. 175, cooperative laws were fragmented which resulted in the creation of different cooperative agencies. This was a serious problem in the promotion and organization of cooperatives. P.D. 175 has codified these cooperative laws which led to the establishment of one cooperative agency that will promote, organize, register and develop cooperatives. This decree required that an apex cooperative organization be formed at the national level to unite all cooperatives in the country. However, the objective was not realized immediately because it was only in 1980 when the Cooperative Union of the Philippines (CUP) was organized. Between 1974 and 1980, three other laws were enacted again fragmenting the above developments, a loose alliance of all national cooperative federations under the different laws was formed and became known as the Supreme Cooperation Council of the Philippines (SCCP). The CUP of P.D. 175, the Federation of Electric Cooperatives (FECO-PHIL) of P.D. 269, the Sugar Cooperatives Development Institute of the Philippines (SCDIP) of P.D. 775 and the Federation of Transport Cooperatives (FTC) of Executive Order 898 joined hands to form the said

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<sup>3/</sup> Substantially taken from the paper prepared by Dr. Leandro Rola. *The Integrated Cooperatives System of the Philippines : Status, Thrusts and Direction*, ACCI, College, Laguna.

informal alliance in June 1986. The Cooperative Foundation of the Philippines Incorporated (CFPI) was appointed as the Secretariat. SCCP is supposed to be the highest officially recognized private sector cooperative body in the country. However, because of the diverse sectoral needs and the different requirements of the different cooperative laws, the respective national federations are often left alone to represent their individual constituencies. It is only when the demands and needs are common to all four sectors that SCCP is made to officially represent the whole Philippine Cooperative Movement. SCCDP has no judicial personality.

## **2. Cooperative Union of the Philippines (CUP) and its Affiliates**

The CUP was organized in 1979 by 15 regional Cooperative Unions (RCU) and 13 National Cooperative Federations. It was registered in February 1980 but it formally started in August 1980.

As the apex organization of the whole cooperative movement in the country under P.D. 175, CUP aims to institutionalize cooperatives as a cohesive and dynamic vehicle for the economic, social, moral and spiritual advancement of people. To accomplish this objective, CUP has been engaged in a wide range of corporative services including policy initiatives, coordination of plans and programs for cooperative development, legal assistance, audit, and monitoring and evaluation, research and development and cooperative education and training.

CUP is financed through membership fee and contributions of cooperative affiliates; local and foreign grants and donations; and the Cooperative Education and Training Fund (CETF). CETF comes from the 10 percent of the net savings of cooperatives as mandated by P.D. 175 and Letter of Instruction (LOI) 23.

As prescribed by law, CUP is expected to :

1. represent all cooperatives in the Philippines at home and abroad;
2. acquire, analyze and disseminate economic, legal, financial, social and other information regarding cooperatives;
3. conduct studies in the economic, legal, financial, social and other phases of cooperation and publish results thereof;
4. promote cooperative principles and practices;
5. develop the Movement within the framework of the national eco-

conomic plan of the Government;

6. plan and implement a program of cooperative education and training; and

7. advise appropriate authorities in all questions relating to cooperatives.

Collections of CETF were proportionately shared as follows: 10 percent for the National Trust Fund, 30 percent for RCUs/Federations, 30 percent for PCUs/CTUs and 30 percent for CUP operations.

CUP's membership comprises two types of components : (1) business components represented by national federations and special secondary/tertiary cooperatives and (2) non-business components represented by Regional and Provincial/City Cooperatives Unions. There are 12 National Federations, 13 Regional Unions and 36 Provincial/City Cooperative Unions. Statistics of membership indicate the following numbers of registered secondary and primary cooperatives represented:

	NO.
1. Regional Federation of Credit Cooperatives	13
2. Provincial/City Federations of Cooperatives	40
3. Cooperative Rural Banks	29
4. Area Marketing Cooperatives	84
5. Credit Cooperatives	1,592
6. Consumer Cooperatives	853
7. Marketing (Agricultural) Cooperatives	294
8. Producers (Industrial) Cooperatives	218
9. Service Cooperatives	194
10. Samahang Nayons	17,155

The actual number of functioning cooperatives may be considerably

less in some categories, notably AMCs and SNs.

There are 13 RCUs affiliated with CUP. RCU is supposed to be made up of two or more PCUs but some have only one PCU as member. The National Capital Region (NCR) has no PCU as member. All the 13 RCUs of CUP are active. They continue to conduct regular general assembly meetings as well as provide non-business services to their affiliates. Almost all RCUs have their own regional cooperative development programs.

### 3. National Agricultural Federations

As stipulated in the cooperative law, two or more full-fledged primary cooperatives may unite to form a federation on the provincial, regional and/or national level. Observed strictly, therefore, any two primaries may form a national or a regional federation. The intention of the law, however, is for the provincial federation to be formed by primaries; the regional federations by provincial federations; and the national by regional federations.

The following briefly describe the nature and background of the four national agricultural federations:

#### 3.1 *Pambansang Katipunan ng mga Samahang Nayon (PKSN)*

The PKSN is the national federation of all SNs in the country. The members are the 13 regional KSNs which in turn are made of 75 Provincial KSNs with 17115 SNs as members.

Occasionally, the PKSN President represented the SNs in some forums and promoted the cause of SNs in the country.

However, during the past three years, the PKSN leadership had not submitted minutes of its annual general assembly meeting or annual report at BACOD. It was reported that the last annual general assembly meeting was in 1986. This was when the SN regional representatives were convened by BACOD for a dialogue. While PKSN can be said to have been semi-active in the last three years, several regional, provincial and even municipal KSNs remained active. This is specially true in the Southern Philippines.

The PKSN was organized with the following objectives: a) to assist in the promotion, organization and development of cooperatives; b) to

conduct continuous cooperative training to all SN affiliates; c) to serve as conduits for technology transfer; d) to initiate organization of AMCs and CRBs; and e) to act as the mouthpiece of SNs in airing their problem, needs and grievances.

### *3.2 Federation of Cooperative Rural Banks (BANGKOOP)*

BANGKOOP is the national federation of 29 CRBs in the country which were formed by 4,946 SNs and 171 other types of cooperatives. Initially, it was a non-stock cooperatives association performing non-business services for CRBs. In recent years, however, it was registered with BACOD as a stock cooperative to enable it to perform business functions.

With the assistance of the Department of Agriculture, funds amounting to P12 million from Cooperative Development Loan Fund (CDLF) and the P25 million from the Intensified Rice Production Program (IRPP), BANGKOOP managed to provide loans to its CRB member affiliates at discounted rates. From March 1985 to December 1987, BANGKOOP released a total loan of almost P97 million from IRPP funds. Of this amount P77.1 million had matured and P71.1 million had been collected. This gives a collection rate performance of 92.2 percent.

Some of the non-business services provided by BANGKOOP are: promoting appropriate laws; regulations and policies within private and public sector; conducting research and development for its members; providing education and training program for directors, officers and key staff employees of CRBs; conducting management consultancy services to its members; and providing liaison with key government officials and agencies.

BANGKOOP is managed by a board of fifteen (15) Directors, (one from each of the eleven regions and four at large) elected by an annual General Assembly. The Board elects the officers from its own members with the exception of the Secretary and the Executive Officer who are appointed by the Board.

The main objective of BANGKOOP is to institutionalize the cooperative banking concept as a system of promoting the interest and welfare of the rural people through policy initiatives; promoting organizations and development of CRBs; provision of management, advisory services and financial assistance to CRBs; and fostering of strong linkages with various cooperatives in the country.

BANGKOOP is considered one of the most successful federations in the country. According to its published financial statements, total resources of BANGKOOP as of December 3, 1987 were P45.3 million supported by liabilities of P40.8 million and member's capital of P4.5 million. Included in member's capital is subscribed capital of P1,450,000 (P50,000 from each CRB member) of which P741,400 is paid. BANGKOOP had also profits of P781,209 (of which P617,775 is the 1987 profit) and a surplus reserve of P3 million. Also included in these figures are receivables from member banks of P 25.3 million representing advances to member banks largely supported by funding from the Central Bank of the Philippines and Department of Agriculture programs. Essentially, BANGKOOP has also been a conduit of CB funds to its member banks for on-lending to Area Marketing Cooperatives and the Samahang Nayon.

### *3.3 Cooperative Marketing System of the Philippines (CMSP)*

The CMSP is the national federation of 17 Area Marketing Cooperatives (AMCs) and other cooperatives. Organized in 1975, the CMSP was designed to be the national arm for the procurement of farm inputs and supplies as well as the main market outlet of AMCs for the SN farmers produce. It had an authorized capital structure of P25 million with an initial paid-up capital of P1.2 million and assets of P44 million. During 1975-1980, CMSP had accumulated marketing sales of P92 million and farm inputs sales of P15 million.

CMSP, which had received a P27.5 million line of credit from CDLF, ran into financial difficulties when it tried to subsidize the viability of the Metro Manila Cooperative (MMC), otherwise known as the Super Palengke, which later failed. This failure, unfortunately, came at the expense of CMSP's AMC members, many of which rejected CMSP's management policies which they felt were biased towards consumers interest. The subsequent unwillingness of AMC's to support CMSP led to its effective collapse in the 1980's.

While CMSP is heavily indebted to CDLF, it was able to acquire fixed and/or real assets. It has been reported that CMSP continued to maintain a small rice marketing business until it was taken over by a Management Committee created by DA in September 1988 with the BACOD director as chairman.

BACOD with the support of the cooperative sector, is now considering two options with respect to support for cooperative marketing structures.

(1) Revitalization of the CMSP which is still existing but not operational. This would need restructuring and opening the gates of its memberships to other secondary and regional cooperatives.

(2) Organization of new national cooperative marketing federation whose memberships will be regional cooperatives and other secondary cooperatives where regional cooperatives do not exist.

In the recent months, the agricultural cooperative sector manifested in resolutions from at least 12 regions is proposing the organization of a National Federation of Agri-based Cooperatives which will be composed of provincial federation of agri-based cooperatives, some of which were recently registered with BACOD. It is also proposing that the National Federation will have its own regional branches, when necessary.

The specific functions of the National Federation are the following :

- a) bulk buying and distribution of farm inputs, fertilizers and other farm supplies;
- b) marketing, storing, processing, packaging and hauling the members' produce;
- c) obtaining favourable prices for the farmers agricultural produce and other input and farm supplies requirement;
- d) building-up of warehousing, processing/marketing and other equipment/facilities in every cooperative affiliate; and
- e) other marketing and services needed by the cooperative members;
- f) serve as a conduit for mobilizing savings among agricultural cooperatives; providing appropriate education and training to cooperative farmer-members and as spokesman of all affiliate agri-based cooperatives in the country.

#### 3.4 *Cooperative Insurance System of the Philippines (CISP)*

CISP is the youngest of the 24 life insurance companies in the Philippines, organized in 1974 by some 10,000 SNs and 150 full-fledged cooperatives. It begun by selling group term life insurance to Samahang Nayons and other agricultural cooperatives. It later added other policies including group loans payment protection and credit-life policies. Now, it



has 257 cooperatives as members, with about 7,153 individuals insured and about P1 billion of insurance currently in force.

CISP's objectives are to provide low-cost insurance with social content, to build a strong financial base for the cooperative movement, to promote savings and self-help programs and to serve as a medium for spreading the cooperative ideology.

CISP recently formed a new tie with the Trade Union Congress of the Philippines (TUCP), a labour union with 1,900,000 members who has two representatives in CISP Board. CISP board also recently bid to be the contractor for mortgage redemption insurance under the Land Bank financed CARP land transfers, which would represent a significant increase in new business. In connection with these two developments, CISP has started to implement its extensive new computer system.

CISP had P13 million in paid-up as capital of September 1988. It was originally capitalized at P2 million in 1974. As of December 1987, it had a paid-up capital of P5 million, total asset of P16 million, liabilities of P6 million, and net savings of P45,662.00.

In 1988, it had an outstanding loan of P3 million from Cooperatives Agricultural Loan Fund (CALF), through the Agricultural Credit Policy Council (ACPC); a part of this was recently converted to equity, giving the government two ex-officio seats in the Board. CISP had a P360,000 time deposit at BANGKOOP, P40,000 at nine CRBs paying 9 percent; these in turn insure all their members and borrowers under the CISP's credit-life plan. Some loans are also made to play owners against (but not exceeding) the value of their play at generally below market rates with a fairly good repayment rate. CISP is one of the most stable cooperative federations nationwide.

### *3.5 Cooperatives Management System, Inc. (CMSI)*

The CMSI is a national cooperative formed by the pool of managers created under the Management Assistance and Training Program (MTAP), Department of Agriculture. These managers were supposed to train understudies to strengthen the management and training skills of their cooperatives.

After the February 1986 Revolution, the CMSI ceased to operate due to loss of salary subsidies from the MTAP. However, it has not been liquidated by BACOD.

#### 4. Primary and Pre-Cooperatives in the Agricultural Sector

##### 4.1 *Samahang Nayon (SN)*

The socio-economic crisis in 1972 triggered the formulation and subsequent implementation of a new Cooperative Development Program, which made the small farmers the priority target of development. This program necessitated an innovative cooperative law. Thus, on April 14, 1973, Presidential Decree No. 175 was issued. Entitled "Strengthening the Cooperative Movement", this law repealed all previous laws on cooperatives to enable the program planner to start with a clean slate. The decree's basic policy is to foster the creation and growth of cooperatives as a means of increasing income and purchasing power of the low-income sector of the population in order to attain a more equitable distribution of income and wealth as mentioned earlier.

As originally conceived, the SN were to be considered pre-cooperatives. They were considered as such since their agricultural structure and management operation were governed by cooperative principles and practices but they were not allowed to engage in any business activity.

Under the cooperatives development program initiated in 1973, the SNs were only to engage in education and training activities, savings mobilization and/or capital build-up and practice in the development of organizational discipline among its members. However, since the SNs were supposed to be the *de facto* "farmers cooperatives" of agrarian reform beneficiaries as specified in P.D. 175, those associations were also expected to assist and/or help facilitate in the transfer of land from the landlords to its tenant-members. In marketing, the SNs were only to serve as assembly points of the members' produce, while in credit, they were expected to help the members in obtaining production loans from credit institutions and to assist the later in collecting repayments from the farmer.

Whether it was the concept of the new cooperatives development program itself, or the aggressive implementation of the SN development program, or the prevailing policy environment at that time the SNs were received rather enthusiastically by the prospective members in the rural areas. One year after the launching of the SN programs (end of June 1974), the SNDP covered a total of 1,347 municipalities; reached 15,729 barangays; organized 10,419 SNs; obtained memberships of 559,054 and accumulated a total of P5.66 million in membership fees and annual dues.

By 1977, a total of 20,675-SNs with combined membership of 995,100 members were registered with BACOD. As of January 1986, BACOD listed a total of 17,155 fully registered SNs with a savings of about P984 million.

From November 1987 to February 1988 the National Task Force on Cooperative Development created by the National Agriculture and Fisheries Council conducted an inventory survey of all cooperatives under P.D. 175.

The survey covered only 12,921 SNs in 13 regions (75 provinces) of the country for the following reasons: a) serious peace and order condition, b) SNs officers and members could not be located, c) SNs were converted to full fledged cooperatives, d) inadequate funds for travel, e) and others (e.g. SNs can no longer be found).

Of the 12,921 SNs surveyed, 2,382 (18.4%) were classified as active; 2,462 (19.1%) were categorized as semi-active; and 8,075 (62.5%) were adjudged dormant. Active SNs are those found performing economic activities in 1987 or those without economic activity but whose Board of Directors continuously conduct regular meetings in 1987, SNs found to have stopped performing economic activities and/or whose Board of Directors completely stopped conducting regular meetings two years before 1987 are defined as semi-active SNs. SNs whose Board of Directors no longer meet and/or whose economic activities stopped at least three years before 1987 were considered dormant.

The SNs were supposed pre-cooperatives, and therefore, were not allowed to engage in any business activity. However, when BACOD (BCOD) was transferred to the then Ministry of Agriculture in 1980, the SNs were allowed to engage in limited business activities upgrading their level from pre-cooperatives to full-fledged. It has been shown in previous researches conducted by the Agricultural Credit and Cooperatives Institute (ACCI) that many SNs had already been performing income generating activities; several years prior to the action of the Ministry of Agriculture claiming to engage in economic activities. The same study shows that of the 12,382 active SNs only 42% were found with economic activities. As expected SNs with economic activities had greater membership (43/SN) than those without economic activities (41/SN). This phenomenon is explained by their continuous provision of economic services to members. The SN economic activities included general merchandising (29%), multi-purpose activities (9.5%), and other economic activities (6.9%).

#### 4.2 *The Area Marketing Cooperatives (AMC)*

The AMCs were supposed to be the primary marketing cooperatives of the SNs. They were to perform not only processing and selling of farmer's produce but also distribution of farm inputs and other supplies to farmer members through their SNs. P.D. 175 and LOI 23 prescribed that there shall only be one AMC per province to achieve economy of scale and to share a wider market. In view of this, only 75 AMCs were expected to be registered in the entire country.

BACOD records showed that as of December 1988, there was a total of 78 registered AMCs in the country, with combined membership of 5,726 SNs and farmer membership of 263,590. Of these AMCs, 19 were found to be operating at a municipal level only; the rest (53) were provincial level cooperatives. Of the 19 municipal, 7 were operating; the others were either not reporting or had become inactive. According to the records only 27 provincial AMCs were still operating as of December 31, 1987. AMCs, in general, have not performed their functions effectively.

#### 4.3 *Cooperative Rural Banks (CRBs)*

The CRB is the other primary cooperative of SNs. Its main functions is to provide credit and financial services to farmer members through their SNs. Like the AMCs, the CRBs are also restricted to operate on a province wide basis. Had the program been followed strictly, there could only be 75 CRBs in the country. However, unlike the AMCs, the CRBs are regulated both by the Central Bank (CB) and BACOD. As a bank, it is regulated by the CB following the General Bank Act and R.A. 720 which governs ordinary Rural Banks (RBs). As a cooperative, it is regulated BACOD.

According to the statistics published by the Central Bank, the total loans granted by all CRBs as of December 31, 1987 were P178.6 million broken down as follows: agricultural, P105.8 (59.2%); commercial, P31.6 million (17.7%); residential, P11.7 million (6.6%); and others, P29.5 million, (16.5%). The records also showed that CRBs had a total resources of P345.7 million and total liabilities of P256.3 million. It had a post due ratio of 42.2%.

According to a TBAC study in 1981, the CRBs were faced with the following problems:

1. The system operates within a framework of broad ownership of a

relatively low capital base, a provincewide scope of operations and a paternalistic incentives structure coupled with a confused regulatory system.

2. Lending orientation is largely towards the high-cost high risk, low yielding agricultural loans.

3. Resources were inadequate as a result of low capitalization, low deposit generation and low financial leverage. Deposit to asset and debt-equity ratios of CRBs were lowest in the financial system.

4. CRBs were unable to compete effectively with other banks due to smallness of resources and uniqueness of clientele.

#### *4.4 Marketing Cooperatives*

As of September 30, 1989, a total of 567 marketing cooperatives were registered with BACOD. Of the 567, 358 were active and 209 were dormant. They had a combined membership of 5,990, a paid-up capital of P1.5 million and total assets of P19.5 million.

The marketing cooperatives include agricultural as well as non-agricultural marketing cooperatives. The agricultural marketing cooperatives were much bigger than the non-agricultural marketing cooperative in terms of membership. The largest agricultural marketing cooperatives in terms of active membership had 936 members while the smallest 55 members.

#### *4.5 Multi-purpose Cooperatives*

Following the issuance of P.D. 175 and LOI 23, the promotion and development of FACOMAS or multi-purpose cooperatives was stopped. Instead, the SN-AMC-CRB model was promoted. After 1986, however, the promotion and development of multi-purpose cooperatives (primarily the conversion/graduation of SNs into full-fledged cooperatives) was resumed. The multi-purpose cooperatives being promoted now are emerging from both agricultural and non-agricultural sector. It has been observed that a good number of consumers and credit cooperatives have gone into production, processing and marketing of both agricultural and non-agricultural commodities after the change from Marcos to the Aquino Government.

Based on BACOD Quarterly Report, as of September 1989, there were 1,025 active multi-purpose cooperatives and 430 active non-agricultural multi-purpose cooperatives out of 1568 multi-purpose cooperatives in the country.

#### **IV. COOPERATIVES AND OTHER AGENCIES RESPONSIBLE FOR EDUCATION AND OTHER NON- BUSINESS ACTIVITIES**

##### **1. Cooperative Union of the Philippines (CUP)**

CUP is the apex cooperative organization of the Philippine Cooperative Movement. Its membership includes 13 Regional Cooperatives Unions and 13 National Cooperative Federations. It was organized in December 1979, registered in February 1980 and formally started operations in August 1980.

Since its establishment, CUP has led the way for the development of cooperatives in the country through the promotion of the "cooperative idea" as a way of life; development of cooperatives within the context of national policy by means of research and information, education and training, audit, technical services facilitation of technology transfer, advice the activities in all matters relating to cooperatives, and represents all cooperatives in the Philippines at home and abroad. Internationally, CUP is an active member of the International Cooperative Alliance (ICA). It has also linkages with the International Labour Office and the Food and Agriculture Organization of the United Nations.

Principal activities of CUP include policy initiatives, education and training, development of cooperative business, development of institutional relations, public information and special projects. These activities are funded from membership fees, membership contributions, local and foreign assistance, and the Cooperative Education and Training Fund (CETF).

##### **2. National Confederation of Cooperatives, Inc. (NATCCO) and its Affiliates**

NATCCO is a national level organization, representing various types of cooperatives, mostly non-agricultural, operating in different parts of the country. It has five affiliated cooperative training centers. In 1977, the leaders of the centers decided to organize a national organization the National Association of Training Centres for Cooperatives (NATCCO). These centers initially provided only cooperative education and training for the members, but later they added consulting and auditing services for cooperatives, inter-cooperative lending and inter-cooperative trade services. The five centers are the Visayas Cooperative Development Centre

(VICTO), Bicol Cooperative Development Center, Inc. (BCDC); the Tagalog Cooperative Development Center, Inc. (TAGCODEC). and the Northern Luzon Cooperative Development Center (NORLUCDEC) and Southern Philippines Educational Cooperative Center and the Mindanao Alliance of Self-Help Societies (SPECC/MASS). A sixth affiliate, the Credit-Life Mutual Benefit Services Association (CLIMBS).

NATCCO's primary activities are cooperative education and training, cooperative auditing and consulting on a fee basis; cooperative funds intermediation and mobilization including the inter-cooperative lending fund, and financial assistance for cooperative projects, inter-cooperative trade and development and research in cooperatives.

NATCCO funds its activities from its revenues. It has received funding from Friedrich-Ebert Stiftung of West Germany, Dutch Development Agency, and the Canadian Cooperative Association for various projects. It is a member of the International Cooperative Alliance.

### **3. Visayas Cooperative Development Center (VICTO)**

VICTO which was founded in 1971 performs business and non-business functions. It has a membership of 110 cooperatives with a total of 15,000 individual members and a combined assets of P90.7 million. As in the other centers, VICTO offers services such as education and training, auditing consultancy, cooperative central fund system and inter-coop trade. Unlike the other centers, it has on-site training facilities. It has 145 paid staff. While VICTO is performing so many activities, its primary function is to train individuals to organize cooperatives and then to increase the capabilities of members, leaders and managers in the cooperatives.

It has nine certified Public Accountants who conduct auditing and consulting in cooperatives for the purpose of improving their internal control. These services were started in 1979.

The Central Fund, established in 1979, now has 50 cooperative members and total assets of P15 million. Loans are given only to members as approved by a Credit Committee at interest rate of 1% per month.

Inter-cooperative trade activities were started in 1982, and are carried out on variable commission basis. Some market and price information gathering and dissemination is done by telephone to counterparts in other provinces.

However, poor telephone connections have adversely affected their operations.

#### **4. Southern Philippines Educational Cooperative Center and Mindanao Alliance of Self-Help Societies (SPECC/MASS)**

SPECC/MASS has its roots in the early Philippine Credit Union Movement of the 1950's. Recognizing the need for a separate education and training group, the cooperatives in Cagayan de Oro, decided to establish the Southern Philippines Education Cooperative Center (SPECC) in 1960. Since then, it has been providing cooperative education and training to cooperatives. The Mindanao Alliance of Self-Help Societies (MASS) was founded in 1973 by four cooperative federations and 104 primaries. SPECC and MASS combined together in 1984, and now have 105 primary members and 4 federations and a staff of 30.

SPECC/MASS began its extension services in 1974, started operating a printing press in 1974, and auditing and consultancy services in 1976. The Mindanao Central Fund was started in 1978, the first of the regional cooperatives inter-lending funds. The Fund increased for P50,000 to P4.5 million in 1988, with 60% of its 75 members being credit cooperatives; 25% consumer cooperatives and 15% service and marketing cooperatives. The Inter-coop program was started in 1985, mainly for marketing of primary crops such as corn, rice, coffee and copra, with a volume of P2 million in 1987 and which is expected to increase substantially in the future.

#### **5. Credit-Life National Benefit Services Association (CLIMBS)**

CLIMBS was adopted in 1980 by the Cooperatives affiliated with NATCCO and is promoted by all five Regional Development Centers. It offers nine different services :

1. Life-saving plan
2. Loan protection plan (life-credit)
3. Cooperative officers protection plan (life)
4. Cooperative employees retirement plan
5. Cooperative Security Undertaking Plan (bonding)
6. Cooperative Crop Protection Plan
7. Cooperative Individual Members Retirement Plan
8. Cooperative Hospitalization Plan
9. Cooperative Education Plan



CLIMBS does not provide non-business services, unlike the other members of NATCCO.

## **6. Cooperative Foundation of the Philippines, Inc. (CFPI)**

CFPI is a non-government organization (NGO) which is non-stock and non-profit. It was registered with the Security and Exchange Commission (SEC) in May 12, 1977 and its operations began in January 1978. It was registered as a cooperative with the Bureau of Cooperative Development on August 13, 1981.

In 1984, CFPI was accredited as a tax-exempt foundation by the Department of Science and Technology (DOST) and a donee institution by the Bureau of Internal Revenue (BIR). All donations made to CFPI are 100% tax-deductible.

CFPI aims to promote the development and growth of cooperatives as instruments for social justice, economic growth and for the uplift of the socio-economic conditions of the poor particularly the small farmers.

Principal activities of CFPI include research and policy studies, cooperative development business development, promotions and publications, and a cooperative data bank and information center. Its main source of finance is the interest from its P4 million trust fund and grants from local and foreign institutions.

## **7. Agricultural Credit and Cooperative Institute (ACCI)**

ACCI was established on April 23, 1960 pursuant to the resolution of the delegates to the Far East Agricultural Credit Workshop held in Baguio City on June 8, 1952. It was conceived as a regional center for the training of officials and employees of government agencies dealing with the promotion and supervision of agricultural credit and cooperative organizations; for the holding of seminars and workshops to discuss operations, management and problem of these organizations; for the conduct of scientific research specifically directed toward solving current problems of credit and cooperative agencies and organizations; and for providing extension services, including advisory and consultancy services to cooperatives and credit organizations in the rural areas. The fundamental objectives are:

1. to encourage and assist agencies and private organizations in the Philippines and Southeast Asia in the accomplishment of their programs

by conducting training courses; training of trainers; and undertaking research activities, preparing informational, educational and training materials;

2. to assist the University of the Philippines in developing a curriculum in the fields of rural finance and cooperatives especially in the aspects of management and marketing;

3. to provide special training courses, services, conferences and workshops for students, employees, officials of agricultural credit and cooperative organization from other countries in the Southeast Asian Region.

Since its inception, ACCI has trained more than 14,000 officers and management staff of agricultural credit and cooperative agencies. Unfortunately, less than 2% of the training output were foreigners and therefore, it has failed to become a regional training center. In terms of training subject matter content, almost 90% revolved in the field of cooperative programs and development. Agricultural credit took much of ACCI's effort in the 1960s when it was given the responsibility to train officers and management staff of the Rural Banking System. In the 1970's ACCI was heavily involved in the training of management staff of the FACOMAS which were being revitalized by the Agricultural Credit Administration (ACA).

In the field of research, ACCI's most important contribution to the Philippine economy was the pioneering work it has accomplished in introducing the supervised agricultural credit scheme in cooperative with the Development Bank of the Philippines and the Central Bank of the Philippines in 1963. The scheme was a departure from the traditional style of lending. It involves the granting of adequate and timely credit to the farmer-beneficiaries based on a jointly prepared farm plan and loan budget by the farmer and the trained production specialist who shall render the appropriate technical assistance to ensure the success of the project financed. The results of the implementation of the credit scheme was encouraging. Loan repayment was 100%. The results of the credit scheme was used as a basis of the National Supervised Credit Programs to attain self-sufficiency in food.

Another milestone of ACCI was the conduct of its biggest research program thus far - the Research and Evaluation of the New Cooperative Development Program in 1973-1979. This was a joint undertaking with the Ministry of Local Government and Community Development which was underwritten by the International Development Research Center of

Canada. Its contribution to the cooperative movement can still be felt with the recognition of the SNs and cooperatives as the outstanding institutions in promoting agricultural production and rural development.

Recently, ACCI was mandated by the University of the Philippines to offer graduate courses in Cooperatives. It has a Master in Management specializing in Cooperatives. Recently, it has a Master in Cooperatives and Master in Cooperative Management have already been proposed for approval by the University Council. ACCI has pioneered in the offering of graduate programs in cooperatives.

## V. PHILIPPINE COOPERATIVES LAWS

Many cooperative laws have been passed by Philippine legislators in the country. Some of these laws were enacted as early as February 3, 1915 such as Act No. 2508 known as the Rural Credit Law. Since these laws were thoroughly dealt with in the section on historical development of cooperatives in this paper, the discussion in this section will be focused primarily on Presidential Decree 175 as amended.

P.D. 175 repealed all provisions of previous cooperative laws inconsistent with any provisions of this law. This law was supposed to govern all types of cooperatives. However, due to strong desire of some sectors to exclude themselves from the implementation of P.D. 175, new cooperative laws again were enacted resulting in the fragmentation of the Philippine Cooperative Movement.

Aside from P.D. 175, three other laws govern cooperatives namely:

1. P.D. No. 265 which deals with electric cooperatives is implemented by the National Electrification Administration. The purpose is the electrification of the countryside;
2. P.D.No. 775 which regulates the operation of the sugar marketing cooperatives. The Sugar Regulatory Administration is the implementing agency of the government; and
3. Executive Order No. 899 which governs the operation of transport cooperatives is implemented by the Office of Transport Cooperatives of the Department of Transportation and Communication.

Except for the three types of cooperatives enumerated above all other types of cooperatives are governed by P.D. 175 as amended. This decree is being implemented by the Bureau of Agricultural Cooperatives Development, Department of Agriculture.

Specifically, P.D. 175 aims to help the less fortunate segments of our society who are in need of social and economic amelioration and should have the right to enjoy the privilege of self-government, social growth and economic independence under a truly just and democratic society and to increase income and purchasing power of the low-income sector of the population. It is a declared policy of the State to foster the creation and growth of cooperatives as a means of increasing and equitably distributing income and wealth in the country.

Among the salient features of P.D. 175 are the following :

1. exemption of cooperatives from income taxes and sales taxes provided a substantial portion of net income of the cooperative is returned to the members in the form of interests and/or patronage refunds, provided, further, that for income tax purposes, non-agricultural cooperatives shall be exempt for a period of five (5) years and agricultural cooperatives for a period of ten (10) years reckoned from its registration or re-registration. This provision was repealed by the new government.

2. Financial assistance to cooperatives through the creation of the Cooperative Development Loan Fund for the Development of Cooperatives. This fund was financed from (1) general appropriations, (2) proceeds of US Public Law 480 commodities, (3) foreign loans, (4) grants and donations, (5) levies imposed by existing laws on agricultural commodities for cooperative development, (6) such other sources provided by existing laws. The purposes of this fund were for (1) loanable funds for cooperatives (2) guarantee for loans granted to cooperatives, (3) advances to cooperatives for the purchase of rural banks.

The Fund which was administered by a Management Committee was absorbed by the Consolidated Agricultural Loan Fund (CALF) managed by the Agricultural Credit Policy Council.

3. The law created also the Management and Training Assistance Program (MTAP). The MTAP which is administered by an Advisory Board, aims to create a Central Management and Training Pool to be composed of top caliber managers, who may be assigned to actively manage a cooperative of cooperatives for the prime purpose of training an under-

study or understudies. This Program is financed out of general appropriations, income from Cooperative Development Loan Fund, grants and donations and contributions from cooperatives. At present the Agricultural Credit and Cooperatives Institution (ACCI), University of the Philippines at Los Banos (UPLB) is engaged by MTAP to implement its program.

Under the 1987 Philippine Constitution, the role of cooperatives has vital instruments for attaining social and economic development in the country both in rural and urban areas was made more prominent. The Constitution mentions the word "Cooperative" six times. Section 15 of Article XIII, provides that "Congress shall create an agency to promote the viability and growth of cooperatives as instrument of social justice and economic development." Today there are four different government agencies dealing with cooperatives.

This problem is already addressed by the present Philippine Congress. In fact, House Bill (H.B.) 10787 and Senate Bill (S.B.), 485 creating Cooperative Development Commission/Authority have already been passed on third and final readings by both House of Representatives and the Senate. It is almost certain that the Cooperative Development Commission/Authority will be signed by the President C. Aquino in the very near future. This will again unify the Philippine Cooperative Movement.

House Bill No. 13029 known as the Omnibus Cooperative Code has already been passed on third and final readings in the House of Representatives. However, the counterpart bill in the Senate, SB 513 has already been passed in third reading. Undoubtedly, this will finally be passed by the Senate.

The proposed Cooperative Code provides among others tax exemptions for cooperatives, special chapters for credit cooperatives, cooperative banks, beneficiaries of Comprehensive Agrarian Reform Program (CARP), service cooperatives, cooperative insurance services, and strong sanctions against cooperative laws and regulations. The proposed Cooperative Development Authority or Commission shall be the regulatory agency for all cooperatives which can help resolve the problem of fragmentation.

## **VI. FINANCING AGRICULTURAL COOPERATIVES**

### **1. Land Bank of the Philippines**

The Government owned three banks : the Philippine National Bank (PNB), Development Bank of the Philippines (DBP) and the Land Bank of the Philippines (LBP). LBP is the most involved in agricultural finance.

LBP was originally established in 1963 to finance the transfer of land titles from landlords to tenants. In 1973, it was reorganized and became involved in various programs designed to promote the economic welfare of agrarian reform beneficiaries. Several new Programs were instituted to provide financial technical and managerial assistance to small farmers.

As the financing arm of the Comprehensive Agrarian Reform Program (CARP), LBP performs a distinct social mission to provide financial assistance for three essential operations of this reform;

- a) the transfer of agricultural lands from landowner to tenant farmers;
- b) the shifting of capital of farmer landowners to industry and productive enterprise; and
- c) the improvement of productivity of farmer beneficiaries.

Since 1987, LBP has made various attempts to improve its services; it began to restructure its fundamental business of credit extension and investment structure in a way that could respond more quickly to serve a greater number of agrarian reform beneficiaries. It has broadened its credit delivery system to include rural banks, cooperative rural banks and farmers cooperatives as credit intermediaries to serve the needs for farm production inputs and facilities. It has also established an outlet for trading the new 10 Year Land Bank Bonds, opening and investment opportunity for old and new bondholders.

In 1988, LBP launched a major shift and decided to emphasize the wholesale credit delivery sector, instead of the retail sector. Because of its new emphasis on wholesale banking (18% of its loans were wholesale in 1987 against 60% in 1988 and most likely more than 70% in 1989), LBP has also been aggressively promoting its credit programs with intermediaries including cooperatives. Where intermediaries do not exist either because of isolated rural conditions or because previous lending programs undermined existing financial institutions, they have organized co-

operatives and other farm organizations themselves. Based on its reports, LBP figures indicated that in 1988, they extended loans to 261 new agri-based coop which benefited over 20,000 small farmers as against 20 cooperatives in 1987. The long-term goal of LBP is to have approximately 100 cooperatives and farmer organizations serving the credit and other needs of small farmers throughout the country (in 1989, 250 cooperatives were served). LBP provides to intermediaries at 12% per annum. Interest in retailing operations is approximately 15%. Intermediaries and a service fee of 5% for every loan disbursed. The idea of organizing cooperatives for the disbursement of credit is unlikely to work <sup>4/</sup>. These "coops" may be little more than "groups". There may be some administrative cost saving by dealing with fewer accounts but these savings are often offset by large increases in arrears.

As learned time and again, cooperatives are organized from within, not from the outside. The Land Bank's approach to organizing cooperatives may work against building a strong cooperative base.

## 2. Rural Banks (RBs)

The Rural Banking System was initiated in 1952; by 1980, over 1,000 RBs had been established with assistance from the government, today some 850 of these banks continue to be active and 96% of the banks are situated in rural areas, making the Rural Banking System the largest network of rural financial institutions in the country.

During the last decade they have been the predominant source of institutional credit for small farmers. As of 1987, the Rural Banks made 12.8% of all agricultural loans during the year.

The Rural Banks were provided a host of privileges and subsidies by the past government. It was observed that the government did not provide the proper incentives so the banks could not act as true financial intermediaries - mobilizing deposits and savings and transforming them into loans for any viable projects. The government's position of fostering low proceed credit, combined with high risk loans carrying high transaction cost for lender as well as borrower, gradually led to a deterioration in the RB loan portfolios. The closing of rural banks accelerated, and by 1986, only 85% were left in operation. Of these, only 232 banks were qualified for rediscounting.

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<sup>4/</sup> The Apex CFI Feasibility Study : An Independent Assessment Prepared by James Kern, Arthur Young, Consultant.

The precarious position of the Rural Banks led to the creation of the Government's Rehabilitation Program in 1987. Basically, the Rural Banks should infuse new capital bringing the Risk-Asset Ratio (networth/loans outstanding) to 20 % before being eligible to participate. They then could choose to restructure their debts with the Central Bank or arrears may be converted into government equity in the RBs (held by the Land Bank). As of March 1989, more than 70 Rural Banks had participated in the Programme.

### **3. Cooperative Rural Banks**

As mentioned earlier, CRBs main function is to provide credit and financial services to farmers, through their SNs. Like the AMCs, the CRBs are also restricted to operate in a province wide basis.

The depositors and borrowers of the CRBs are its cooperative members including primarily the SNs and the AMCs in the agricultural sector and to a lesser extent some of the more agricultural cooperatives.

As of December 31, 1987, CRBs had a total paid-up capital. The Land Bank of the Philippines currently holds 49% of the equity of CRBs.

Despite the seeming success of CRBs, these banks suffer from the same problems inherent to the RBs: over-reliance on concessional government funds, lack of efficient loan servicing and staffing problems. Almost all CRBs are under rehabilitation.

### **4. Cooperative Development Loan Fund (CDLF)**

Until December 1986, CDLF was providing loans to cooperatives. The source of this fund which is provided under P.D. 175, are general appropriation, foreign loans or proceeds of sales of commodity loans, grants and donations, levies imposed by existing laws on agricultural commodities for the development of cooperatives and such other sources as provided existing laws.

The Fund which was administered by a Management Committee was being utilized as a source of loanable funds for cooperatives, guarantee for loans granted to cooperatives and as a source of advances to cooperatives for the purchase of equity of rural banks or for establishing CRBs.

As of March, 1975, the total loan extended by CDLF amounted to P33.4 million of which P27.3 million was direct loans to cooperatives and



P6.2 million was guaranteed. It also invested millions to national cooperative federations. This was absorbed by the Comprehensive Agricultural Loan Fund (CALF).

#### **5. The Comprehensive Agricultural Loan Fund (CALF)**

One of the major initiatives by President Aquino's government to promote greater commercial banking lending has been the shift from direct government agricultural lending to programs under which government funds guarantee private flows to rural areas and important sectors of the economy such as small and medium scale enterprises. In December 1986, the Government reorganized its agricultural lending portfolio by consolidating 20 out of 46 separate lending programs into Comprehensive Agricultural Loan Fund (CALF) as a guarantee facility. Included among these is a Cooperative Development Guarantee Fund, although little use has been made of the specific facility.

It was alleged that CALF was established because previous credit funds were not used effectively. Most programs were plagued by high administrative costs of the inter-agency committees handling the funds on a part-time basis.

The CALF is administered by the Agricultural Credit Policy Council (ACPC) of DA. Funds are channeled through four separate facilities: the Philippine Coop Insurance Corporation (PCIC) for production needs of small farmers and cooperatives; the Quedan Guarantee Fund Board (QGFB) (specializing in warehousing selected guarantees for grains and other storable agricultural commodities) and the Guarantee Fund for Small and Medium Enterprises (GFSME) (which focuses on guarantees for small and medium sized agricultural projects). Included is the Cooperative Guarantee Fund (CGF).

As of October 1988, the combined CALF facilities guaranteed approximately P100 million. Average loans sizes ranged from P7,000 under the PCIC-CALF program to approximately P10,000,000 under the QGFB-CALF window. Guarantees to cooperatives have so far been small.

#### **6. Proposed Central Cooperative Development Finance Incorporated (CCDFI)**

CCDFI was initiated by the Supreme Cooperative Council of the Philippines (SCCP). It was incorporated on December 10, 1988 as a Non-Bank Financial Institution, owned and operated by its cooperative mem-

bers. It is open to all registered cooperatives in the country and aims to mobilize the use of the cooperatives own resources and to improve their access to external funding sources.

Specifically, it has the following objectives ;

- to serve as a catalyst for organizational development.
- to consolidate resources and assist in meeting member's demand for credit;
- to stimulate savings mobilization;
- to act as conduit for capital inflows;
- to strengthen the borrowing power of the rural sector.

CCDFI will run as a corporation but will adhere to all key cooperative principles. It is controlled by an elected Board of Trustees which in turn appoints an Executive management. Funding is raised through member equity development grants and sale of commercial papers.

Authorized capital is P100 million divided into common and preferred stock, supplemented by membership fees. Its main purpose is to provide institutional (wholesale) finance to its member cooperatives.

As a national cooperative organization, it was not registered by the BACOD due to its small paid-up capital.

## **VII. THE INTEGRATED NATIONAL COOPERATIVE AUDIT SYSTEM (INCAS)**

INCAS is an autonomous organization unit of the Cooperative Union of the Philippines which was established on January 6, 1984, pursuant to the Ministry of Agriculture Circular No.4 dated 18 October 1983.

The INCAS has the following objectives :

1. to admit Certified Public Accountants as members of INCAS to perform the audit of cooperatives as may be authorized by law;
2. to facilitate the extension of audit services to cooperatives;

3. to monitor and evaluate the quality and effectiveness of cooperative audit;

4. to provide education and training for the continuous updating of the quality and standards of cooperatives audit;

5. to establish data banks and disseminate information relative to cooperative audit, including but not limited to procedures standards and quality of audit;

6. to strengthen regional and/or provincial committees for effective administration and coordination of the system on a national scope; and

7. to perform other functions and undertake projects and programs for the enhancement of cooperatives audit and for realization and achievement of the objectives of the cooperative audit system.

The members of INCAS undertake the audit of cooperatives. Such members are the Certified Public Accountants from the private sector who are qualified and admitted as INCAS members and the CPA Cooperative Examiners of the Department of Agriculture assigned to INCAS.

Before a Certified Public Accountant is allowed to audit cooperatives, he has to be accredited by BACOD. Accreditation of CPAs to become cooperative auditor requires attendance and completion of a course for cooperative auditors. This course is designed by BACOD and run for a period of one week.

The INCAS is administered at different levels by National Administration Committees.

The functions of the National Administration Committee are the following :

1. to determine the internal policies and procedures of the system;
2. to exercise general supervision over the regional and provincial committees;
3. to approve the affiliation of qualified CPA's with INCAS upon recommendation of the Regional Committees;
4. to perform such other functions necessary to achieve the objectives

of INCAS.

The INCAS shall at all times promote, preserve and protect the professional independence of its affiliated CPA's.

To accelerate the operationalization of INCAS in all the regions, the Minister of Agriculture and Food issued Circular No.15 in 1985 directing the Regional Directors and his staff to encourage, assist and support the RCU's in the establishment and operationalization of the Regional INCAS.

As of March 1989, 279 CPAs have been trained and accredited as INCAS cooperative auditors. However, BACOD has already trained more than 700 CPAs who have been trained and accredited by BACOD but not yet members of INCAS. Membership in INCAS is not a requirement for a CPA to qualify to audit cooperatives.

The auditing of cooperatives is done by CPAs for fees which vary from cooperative to cooperative. However, those who are auditing cooperatives for the Department of Agriculture do not collect their services.

## **VIII. BUREAU OF AGRICULTURAL COOPERATIVES DEVELOPMENT - GOVERNMENT REGULATORY AGENCY**

Executive Order No. 116 defines the functions of the Bureau of Agricultural Cooperatives Development as follows :

1. Formulate an integrated system development and evaluation of agricultural cooperatives;
2. Provide an assistance in the establishment of agricultural cooperatives in the rural communities;
3. Evolve a program to promote the economic viability of agricultural cooperatives.

While the above functions are heavily biased towards agricultural cooperatives, BACOD as a matter of department policy has continued to promote, develop, register and regulate non-agricultural cooperatives.

The role of the government after the issuance of E.O 116 is as follows :

- 1) the Government is assuming an “assistory” and “facilitative” role in the organization and development of cooperatives;
- 2) where before government took a direct role in the organization of agricultural cooperatives as in the case of FACOMAS and Samahang Nayons, this time the government encourages the private sector to initiate the establishment of farmers organizations and cooperatives. “Private sectors” here would mean the cooperative movement itself, non-government organizations (NGO) and other private voluntary organizations;
- 3) Government will be supportive of NGO’s activities and the organizations which they establish so long as these organizations develop as instruments of social justice and economic development. Then in the agricultural cooperative sector, the government must have the readiness and capability of assisting in the various training aspects, of extending technical assistance and of helping source answers to the developmental needs of agricultural cooperatives, and as financial infrastructure and the likes;
- 4) All this means that government and the private sector shall be partners in the promotion and development of cooperatives. This policy will also enhance the removal of artificial restrictions and respect and preserve the autonomous integrity of cooperatives.

In carrying its defined role in the promotion and development of cooperatives, the government has been guided by its organizational policies which are stated below:

*1. The Grassroots Base*

- a) what has been built and has proved to be viable shall not be destroyed; rather, it shall be assisted to further develop. Under this policy, the operating and viable SNs have the following options:
  - 1) They remain as SNs (pre-cooperatives) with economic activities;
  - 2) They may opt to graduate into a full-fledged cooperative by amending their Articles of Incorporation;
  - 3) Another option is to convert into a primary multi-purpose cooperative and expand its coverage to include other adjoining barangays;

b) Build new ones where none has been build before. The type of organisations shall depend on the desire and decisions of the people themselves. However, they may opt for informal groups, single-purpose cooperative or primary multi-purpose cooperative.

## *2. On Secondary Level*

The principles under the Grassroots organization are more or less similar to the secondary level. The AMCs and CRBs shall be assisted to further develop. In areas where secondary level cooperatives do not exist, new ones may be promoted and developed.

## *3. On Regional Level*

The decision to establish the higher level cooperative structure shall devolve upon cooperatives themselves. Government shall, however, assist them whenever called upon to do so. Regional marketing cooperatives and regional cooperative banks may be organized if allowed by the Central Bank of the Philippines.

## *4. On the National or Apex Structure*

The present national apex structure shall not be disturbed. Where the members decide to strengthen this structure, Government shall support them.

In line with the organizational policies, Government's development policies are expressed in the following assistance to agricultural cooperatives :

- a) Training and education
- b) Development of training materials
- c) Management training assistance
- d) Audit and supervision
- e) Securing financing assistance and linking cooperatives with financing institutions.

## XI. INTERNATIONAL COLLABORATIONS

The Cooperative Movement in the Philippines has been collaborating with international organizations like the ICA, ILO and FAO thru its apex organization, the CUP. Thru the CUP, the cooperatives at various levels have been receiving support from various international organizations in the form of training grants in the fields of agriculture, fishing, education and training, consumers cooperatives, cooperative trade, women and youth cooperatives, etc.

The CUP has succeeded in developing contacts and getting foreign study missions/visits for the development of cooperatives in the Philippines such as the following : <sup>5/</sup>

- 1) ILO Cooperative Training and Development Missions in coordination with BACOD, November-December 1984; December 1986;
- 2) ICA Study Missions for development of Consumers Cooperatives, December 1986; January 1987; March 1988; July 1988;
- 3) ICA-FAO Study Mission on Perspective Planning for Agricultural Cooperatives, March 1987; February 1988;
- 4) OECD (USA) Study Mission on Cooperative Finance Intermediary, in coordination with BANGKOOP and SCCP, June-August 1987; in coordination with BACOD, November, 1987;
- 5) Japanese Institute for the Development of Agricultural Cooperatives in Asia Training Mission and Reunion of Filipino (IDACA) graduates, January 1988;
- 6) VOCA Technical Assistance Missions at various times since 1981;
- 7) ICA Cooptrade Mission, twice in 1988 and once in February 1989;
- 8) WOCCU/ICA Debt-Equity Swap Conversion Mission, September 1988 - December 1988;
- 9) ILO Cooperative Entrepreneurship for Rural Development Mission, December 1988 and ILO MATCOM Mission, January 1989, both in coordination with BACOD.

Similarly, other federations have also been beneficiaries of grants and donations from foreign organizations. For instance, the Philippine Federation of Credit Cooperatives, Inc (PFCCI) received from Credit Union National Alliance (CUNA) and American Central Corporation Union (ACCU) grants of \$144,215 and \$1,894, respectively.

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<sup>5/</sup> Arcadio S. Lozada "Cooperative Development in the Philippines" Paper presented in the CUP-ILO-BACOD-ACCI Seminar-workshop on "Cooperative Training and Development" held on March 17-18, 1989, CEC, UPLB, College, Laguna.

NATCCO has received funding from the West German Friedman-Ebert-Stiftung (FES), the Dutch Development Agency and the Canadian Cooperative Association for various projects including, a) Small Scale Industry Projects, a comprehensive survey of the Philippine cooperatives and in Inter-Coop trade Program. In addition, FES has also sponsored for several years a number of study towns and training in West Germany for Philippine Cooperatives. Aside from NATCCO, FES has also been collaborating with SPECC/MASS, ACCI and other cooperative agencies/organizations in the Philippines.

FAO for several years has been assisting the cooperatives in the field of cooperative marketing. Recently, FAO has assisted the CRBs in the computerization of their savings and loan accounts. This is appreciated very much by the government as well as the cooperative leaders, particularly the cooperative rural bankers.

In the region, the Philippine Cooperative Movement is well represented in the ICA Regional Committees as well as in the ASEAN Cooperative Organizations.

ILO has been continuously supporting the Cooperative Movement in many of its activities such as in training and research including its MATCOM Project. It is also supporting a Cooperative Entrepreneurship for Rural Development which is about to be executed by BACOD and CUP.

## **X. PROBLEMS AND TASKS OF AGRICULTURAL COOPERATIVES**

Cooperative development in the Philippines has a story of successes and failures, mostly failures. It is an undeniable fact that the strength of the Philippine Cooperative Movement now is substantially the same to the Philippine Cooperative Movement in 1955. This phenomenon can be explained by a number of negative factors. Specifically, the constraints toward the development of strong, viable, and responsive cooperatives are briefly discussed below.

### **1. Fragmentation of Cooperative Movement**

Prior to the issuance of P.D. 175, the Cooperative Movement was also fragmented. What was unified by P.D. 175 was short termed as fragmentation started again when the electric cooperative sector obtained



P.D. 269, amending P.D. 175 exempting electric cooperatives from the regulatory power of BCOD and placing them under regulation of the National Electric Administration. Then P.D. 775 further amended P.D. 175 and mandated the development of sugar marketing cooperatives by the Philippine Sugar Commission which later became the Sugar Regulatory Administration. The worst came in 1980 when Executive Order No. 595 was issued establishing the Office of Transport Cooperatives under the Department of Transportation and Communication to register and regulate transport cooperatives.

It is hoped that with the passage of the CDA/CDC and Cooperative Code bills by both Houses of Congress, the Cooperative Movement will be unified again under one regulatory agency of the Government.

## **2. Absence of a National Federation of Agri-based Cooperatives**

With the collapse of the Cooperative Marketing System of the Philippines (MSP), the primary agri-based cooperatives are without support from the top. In fact, these cooperatives are not even represented in CUP.

CUP attempted to address this problem in 1987 through an ICA-FAO mission who was requested to prepare a Perspective Plan for Agricultural Cooperatives in the Philippines. This mission recommended among others the establishment of an Apex Marketing Cooperatives with the following functions:

- warehousing and transportation
- production or importation and distribution of fertilizers, pesticides and other inputs
- agri-processing
- marketing, imports and exports
- market information and promotion
- research, planning, consultancy and development
- education and training

In the recent months, private cooperative in the agricultural sector is pursuing vigorously the formation of the Apex Marketing Federation with Provincial Federations of Agri-based Cooperatives as members. However, regional offices will be put up to serve the members efficiently.

### **3. Absence of a National formalized financing system or National Cooperative Bank**

While the desired goal of the Cooperative Movement is the establishment of a National Cooperative Bank, Central Cooperative Development Finance Inc., (CCDFI) was already organized in 1988. However, due to capital deficiency, it could not be registered with BACOD. If it could be organized, the National Cooperative Bank will undertake the following activities:

- current accounts
- savings and deposits
- rediscounting
- inter-lending
- loans (short, medium and long-term)
- foreign exchange
- floating of debentures with appropriate guarantee
- international funding
- education and training

### **4. Lack of qualified professional managers and technical personnel for cooperatives.**

While there are established training centers for cooperatives, the fact remains that the training outputs are still inadequate to meet the needs of the Movement. It is for this reason, that in 1989, BACOD programmed the training of 1,000 managers and 1,000 book keepers of cooperatives. This is important as one of the reasons of cooperative failure is lack of professional managers and other hired management staff.

### **5. Lack of funds for production loans and for other purposes**

When the Government reorganized its agricultural lending portfolio by consolidating 20 out of 46 separate agricultural lending programs into the Comprehensive Agricultural Loan Fund (CALF) as a guarantee facility. One of the funds included in the consolidation was the CDLF.

This problem has been triggered by a major initiative of the Government to enhance greater commercial banking by shifting from direct government agricultural lending to guarantee arrangements. With this shift, small farmers and their cooperatives have no longer access to farm and cooperative credit. Private commercial banks (PCBs) are not inclined to extend loans to cooperatives and small farmers for the following rea-

sons:

1. PCB's in general have the presumption that cooperatives are not sound;
2. The organizational structure of cooperatives is more difficult to deal with than the corporate form;
3. Cooperatives are often in rural areas where PCB's have no branches;
4. Cooperatives are considered poor credit risks;
5. Cooperatives often are unable to produce reliable financial information to enable PCB's to assess credit risk.

## **Cavite Farmers Feedmilling and Marketing Cooperative, INC. (CAFFMACO) - A Case Study**

### **HISTORICAL BACKGROUND**

In 1976, the Barangay scholars trained through the People's School in Piggery, Poultry and Cattle raising in Cavite, with the assistance of the Cavite Inter-Agency Conference (CIAC), searched for a solution to the prevailing crisis of high cost, inadequate supply and poor quality feeds for hogs, poultry and livestock resulting in uneconomical and unprofitable livestock production.

With the technical assistance from the members of CIAC, training of farmers on cooperative principles, philosophies and practices was organized and conducted. After the training, the trained farmers decided to organize CAFFMACO on October 30, 1976 at the International Institute for Rural Reconstruction (IIRR). Feedmill operations started at the Philippine Rural Life Center (PRLC) on January 2, 1977 on P1.00 per bag rental until May 22, 1982.

### **INITIAL CAPITAL**

CAFFMACO had an initial capital of P137,030.00 broken down to P6,030 share capital from 28 members; P81,000.00 feed ingredient from PRLC and P50,000.00 loan from CODEL (New York based financing agency) through CIAC. CAFFMACO has plowed back its income for business

expansions. Its present feedmill was built through financial assistance from the German Freedom from Hunger Group, thru the IIRR.

### **OBJECTIVES**

The Articles of Incorporation defined its objectives which are as follows :

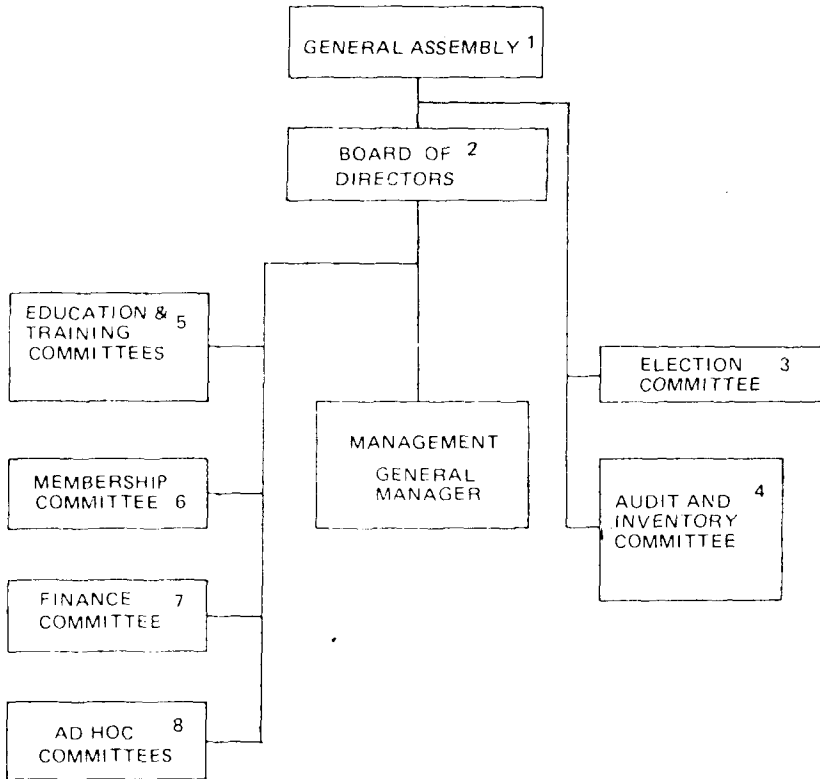
1. to provide efficient services to its members thru:
  - a) Supply of high quality animal feeds at prices lower than the prevailing market prices;
  - b) to provide continuously reliable supply of animal feeds;
  - c) to market member's produce such as sorghum as well as their farm animals;
2. to provide an opportunity for small-scale livestock and poultry producers in Cavite to share in the benefits from cooperatives as a socio-economic instrument to help the rural poor.

### **ORGANIZATIONAL STRUCTURE AND MANAGEMENT**

The organizational structure of CAFFMACO is composed of the General Assembly, Board of Directors, Committees and hired management staff. The records of CAFFMACO revealed that the Board of Directors and the different Committees have been meeting regularly and tackled issues pertinent to the success of the cooperative. The General Manager and his staff have been adequately trained and have been discharging their responsibilities to the great satisfaction of the members.

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## ORGANISATIONAL STRUCTURE



1. Composed of total cooperative membership. Supreme authority.
2. Composed of chairman, vice-chairman, secretary, treasurer and three directors. The policy-making body of the cooperative.
3. Composed of a chairman and two members elected by the General Assembly
4. Composed of a chairman and two members elected by the General Assembly.
5. Chaired by the vice-chairman of the Board of Directors with two

appointed members.

6. Members are appointed by the Board of Directors.
7. Members are appointed by the Board of Directors
8. Created by the Board on need basis.

### **SERVICES RENDERED TO MEMBERS AND COUNTRY**

1. Scholarship program for the children of the members who are needy but capable of pursuing higher education.
2. Livestock and layers dispersal program to qualified members is being carried out by the Coop. This has augmented the income of participating members.
3. Members are also provided with extension service by trained and qualified coop personnel or management and operation of projects.
4. Members are enjoying the benefits under the feed grain program which provides quality inputs (feeds) and ready market for the produce.
5. Credit facilities are provided by Coop for the purpose of starting and expanding animal and livelihood program.
6. Consumers cooperative operations provides consumers goods at affordable price and market the produce of members at profitable prices.
7. Prices of Coop feeds are usually 18% lower than the other feeds in the market. This means a substantial savings to members.
8. The quality of feeds produced by the coop is considered by the Bureau of Animal Industry as one of the best.
9. Feed industry services are made available to members.
10. Aside from the continuous training program on cooperatives, the coop provides training to members on compost making, urea molasses block and use of indigenous resources for livestock production.
11. Through its extension program, the coop promotes the organization of youth groups, women groups, and chapter existing clubs which participate in the coop business activities.

### **THE VOLUME OF BUSINESS**

Within a period of ten years, the volume of business in the feedmill increased substantially from P486,386 (8,899 bags, 50 kg/bag) in 1977 to

P28,278,763 in 1987. This increase is more than 57 times as shown below:

SALES (P)	Production	(50kg/bag)
1977	486,366.00	8,899
1978	648,620.00	10,725
1979	1,173,485.00	15,290
1980	1,911,655.00	21,830
1981	2,282,762.00	23,755
1982	2,609,214.00	26,495
1983	5,468,870.00	49,167
1984	10,223,445.00	55,570
1985	16,564,069.00	80,756
1986	22,241,157.00	100,340
1987	28,278,763.00	

The income from the other operations are also contributing substantially to the over-all favourable financial condition of the coop.

### FACTORS OF SUCCESS OF CAFFMACO

While the success of CAFFMACO can be attributed to the combined effects of so many factors, the most important ones are the following:

#### 1. *Competent and honest elected officers*

In the early years of operation serving the coop without or with little monetary benefits. They provided the leadership with dedication and hardwork.

#### 2. *Efficient and honest hired management*

The manager and his staff grew also with the cooperative. They serve the cooperative with utmost honesty and integrity. The manager, for instance, who was in the feed business gave up the said business to avoid conflict of interest. No instance of anomalies has been unearth in the cooperative by the cooperative examiners over the years.

#### 3. *Enlightened, vigilant and cooperative members*

With continuous education, members are enlightened. They exer-

cise their rights and undertake their responsibilities. They actively participate in the many activities of the cooperative not to mention their full support and patronage of the cooperative.

4. Effective linkages with government and non-government organizations interested in rural development and cooperatives. CAFFMACO was organized under the initiative of NGOs in Cavite.



# **Present Situation, Problems and Future Tasks of Agricultural Cooperatives in Sri Lanka**

## **INTRODUCTION**

### **Agrarian Structure**

1. Sri Lanka is an island of 16.2 million acres with a population of approximately 16 million. The country is predominantly agricultural and 75% of the population live in rural areas. Agriculture plays a major role in the economy of the country, accounts for 27% of government revenues and provides employment for 45% of the work force.

2. The agriculture of the country is divided broadly into an export-oriented plantation sector and a food production or smallholder sector. The export sector is concerned with the production, processing and marketing of tea, rubber and coconut. These crops, particularly tea and rubber, are grown mainly on large centrally managed estates many of which maintain a resident labour population. The food production sector is engaged in the cultivation of rice, a wide range of other food crops and the rearing of livestock mainly for local consumption. A major characteristic of the food production sector is that it consists of a large number of farmers cultivating small parcels of land. The Agriculture Census of 1982 estimated that there are 1.79 million farmers cultivating 3.55 million acres of land, making the average size of holding 1.98 acres. The rearing of cattle and the production of milk is largely an activity of these small farmers.

3. Agricultural production grew at 4% per annum from 1978 to 1985, as a result of substantial gains in the food production sector which counterbalanced declines in production of traditional export crops: tea, rubber and coconut. During 1977-1985, paddy production increased by more than 6% per annum. During the same period, progress in the livestock sector was limited and the growth of the dairy industry was not commensurate with the government investment in that sector. The FAO estimates that the livestock sector's share in the country's agricultural GDP would reach at least 12% if important livestock products such as hides and skin, draft animal power and manure were taken into account.

4. Rainfall over the island follows a distinctly bi-model pattern and precipitation occurs during two seasons: the North East and South West Monsoon seasons. Average annual rainfall varies from 30m to 180 inches. On the basis of rainfall, the country is divided into three climatic regions, a wet zone (3.8 million acres), a dry zone (10.3 million acres) and an intermediate zone (2.1 million acres) which occurs as a narrow strip between the wet and dry zones. Seven major agro-ecological zones have been identified on the basis of annual precipitation, rainfall distribution and elevation. These are further sub-divided into 24 lesser agro-ecological regions each with its particular combination of rainfall, rainfall distribution, temperature, elevation, land forms and soil types. The combination of these factors determine prevailing land use, cropping patterns and development potential in the different regions.

### **Administrative Structure**

5. Sri Lanka has an Executive Presidential system where the President is elected by the people for a term of 6 years. Members of the Parliament are also elected by the people to represent Districts, on a proportional basis. The Cabinet is the Executive arm of the Presidential system and it is presided over by the President.

6. Cabinet of Ministers is responsible for a group of subjects assigned to them by the President. A Secretary is appointed to head the Ministry which serves as the administrative mechanism of the Cabinet Minister. Under the Cabinet Minister there are several State Ministers who are assigned subjects which are within the purview of the Cabinet Minister. The role of the State Minister is mainly, implementation of the programmes and monitoring the progress and the Cabinet Minister is principally engaged in policy formulation. Each State Minister is supported by a State Secretary and a staff to attend to the administration of the subject assigned to him.

7. The entire island is divided into 26 Districts. The Chief Administrative Officer of the District is called the Government Agent. He serves as the link with the Government as well as the district level representative of all Ministries. All development programmes are coordinated by him in the District. He chairs District Coordinating Committee Meetings where all local Heads of Departments participate. There are several Departments located in the capital city implementing the programmes of the Ministries concerned and each of these Departments has its own local office in the District which functions as its representative in charge of the implementation at the District level.

8. The district is divided into smaller administrative divisions called Assistant Government Agent Division and the Grama Sevaka division. The Assistant Government Agent (AGA) and the Grama Sevaka (G.S.) are in charge of the divisions. The AGA is the representative of the Government Agent who coordinates and implements all programmes in his Division. There are 273 AGA divisions and about 14,500 Grama Sevaka divisions. The Grama Sevaka is principally in charge of regulatory functions and the day-to-day minor administrative affairs.

### **Provincial Councils**

9. A new administrative structure has been introduced as Constitutional provision called the Provincial Councils in order to expedite the development process. The island is divided into 8 Provinces and by popular vote members are elected to form the Provincial Council which is somewhat similar to the Parliament in the capital. From among the Members of the Provincial Council 5 are elected to form the Board of Ministers one of whom is the Chief Minister.

10. The President appoints a Governor to each Province to function as his representative and the Chief Minister will act on his advice. He appoints the Provincial Ministers, convenes the Provincial Council and has the authority to recommend to the President dissolution of the Provincial Council if he is of the view that it does not perform its functions satisfactorily and within prescribed rules.

11. By constitutional amendment certain functions are devolved on the Provincial Councils and these are being administered by the Board of Ministers. Each of the Provincial Ministers will take charge of a group of subjects and those will be administered through their respective Provincial Ministers and Provincial Departments.

12. In addition to the devolved functions there are concurrent functions which are being administered both by the Government as well as by the Provincial councils on a concurrent basis. There is a category of subjects called reserved functions such as defence which is essentially the prerogative of the Government.

13. Funds are allocated by the Government to the Provincial Councils. In addition, the Provincial Councils have the authority to raise local funds through appropriate statutes passed by the Councils which provide legal authority. These funds can be used by the Board of Ministers for development programmes and annually such programmes and budgets are

approved by the Provincial Councils.

14. In the present administrative system the subject of Cooperatives is a devolved function where the actual operations are the responsibility of the Provincial Councils. The following activities have been devolved on the Provincial Councils by Constitutional amendments:

- a) Cooperative undertakings and the organization, registration, supervision and the audit of the Cooperative Societies within the Province;
- (b) Cooperative development within the Province including cooperative education and propaganda;
- (c) Cooperative Employees Commission;
- (d) Matters connected with employment, retirement and other connected matters of employees of Cooperative Societies within the Province.

All matters concerning the cooperatives falling within the above mentioned subject areas will be the responsibility of the Provincial Councils. In every Provincial Council the subject of cooperatives has been assigned to a Provincial Minister. A Provincial Secretary is appointed to head the Ministry. To implement the programmes a Provincial Commissioner of Cooperatives has been appointed who is concurrently the Provincial Registrar as well. All supporting staff who functioned in the Department of Cooperatives has been released to the Provincial Councils.

## **1. HISTORICAL BACKGROUND**

1.1 From the earliest days the concept of cooperation has been fully enmeshed and intertwined in the rural social fabric of the Sri Lankan society. The mutual cooperation, trust, help at the time of need marked the day to day lives of the people. The important ceremonial and economic activities such as weddings, funerals, paddy sowing, transplanting, harvesting, house construction, provision of amenities for common good always attracted the entire community. With a sense of pleasure and cooperation people helped each other as a part of their social obligations. However these activities in the early period, were not institutionalized as there was no need to do so.

1.2 The Cooperative Movement was introduced by the British rulers at the beginning of the 20th century. The first attempt to develop something in the nature of a cooperative society was witnessed in 1904 with the establishment of credit societies consequent on a growing request by the Agricultural Society to formulate a credit scheme to help rural people.

1.3 The primary focus of the cooperatives formed during this period was the provision of credit and the first society to be formed on these lines was the Dumbara Cooperative Society. Governor Sir Henry McCallum saw the need to relieve the peasants from rural indebtedness and to direct them to undertake profitable agricultural ventures.

1.4 An Agricultural Banks Committee was appointed to examine how this could be accomplished taking into consideration measures adopted in the neighbouring countries such as India. One of the principal achievements during the period was the enactment of the Cooperative Credit Societies Ordinance of 1911 resulting from the recommendation of the Agricultural Banks Committee. This provided the legal base for the subsequent establishment of Credit Cooperatives, and laid the foundation for the Cooperative Movement in Sri Lanka. This Ordinance defined the objectives, operational areas, membership, funds, and administration and laid down the procedure for the formulation of the day-laws of the Credit Societies.

1.5 The earliest recognition of the 'cooperation' as a system of economic organization capable of developing into village level institutions could be traced back to 1911. The enactment of Cooperative Credit Societies Ordinance of 1911 is the first indication of the Government recognition of this concept. The Government considered it "expedient to encourage thrift, self-help, and cooperation among agriculturalists, artisans and persons of limited means". Therefore, the Cooperative Credit Societies Ordinance was restructured to fulfil these objectives. The period 1911 to 1926 was on the whole, a period of experimentation of the credit societies directly under the supervision of the senior public officers of the Government. Although the Ordinance was entitled Cooperative Credit, the societies formed during this period was not exclusively on disbursement of credit, but covered a wide range of activities concerning supply of agricultural inputs such as seed, fertilizer, credit, home garden competitions, restoration of village tanks, etc.

## 2. Expansion of Credit Cooperatives

2.1 The period 1911 - 1942 marked the era where the Credit Cooperatives were expanded and their operations were widened. The growth of cooperatives during the period was rather slow as it was a time consuming process. Further, the operational problems were numerous and as such the establishment of cooperatives had to be done carefully and with great caution. The state officials played a vital role in educating and motivating people at the same time developing the rudimentary systems of auditing and supervision.

2.2 Two significant features can be observed during the period namely the appointment of a Registrar by the government to be in charge of cooperatives as the state agent and the emergence of the cooperatives as a state-sponsored movement. Being the formative period it is quite understandable that the movement could not, during this period, spring from the people as an institutional and a legal form of cooperative. Therefore the state sponsorship was perhaps the answer and as such pioneering steps were taken by the state officials.

2.3 The Director of Agriculture functioned as the Registrar of the Cooperatives and his functions were enormous. He took policy decisions, registered and dissolved the societies, controlled and supervised them. However, the membership was not open for all sectors of the society as the by-laws stipulated that only those who could read and write should be considered for membership. This resulted in only a fraction of the people joining the early Credit Cooperatives.

2.4 The Registration of Societies commenced in 1913 with the registration of Cooperative Societies in Wellabodapattu, Hinidum Pattu and Weligama Korale - all in the Southern Province. The numbers rose steadily and in 1921/22 there were 169 societies with a membership of 19,957. Their share capital was Rs. 150,355 and the deposits was Rs. 16,381. All these were unlimited liability societies.

2.5 State had a patronizing attitude towards the cooperatives during the period. In order to take a fresh look at the cooperatives and perhaps with the idea of removing some of the identified operational problems the Governor presided over two National Conferences on Cooperatives in Kandy in 1914 and thereafter in Colombo in 1919. Problems of funding and the insufficiency of the legal base were identified as two defects and in order to rectify them a Local Loans and Development Fund was established to provide the financial support to the Credit Cooperatives. The

legal base was strengthened by the enactment of a new Cooperative Societies Act No. 34 of 1921. The main feature of the act was that it dealt with the cooperatives in general and not specifically on Credit Cooperatives.

### **3. Expansion of the Cooperatives**

3.1 During the period 1926 - 1942 the types of cooperatives as well as the activities expanded gradually. The credit cooperatives continued to be the central focus and practically all were societies with unlimited liability. Their areas of authority were small, shares were limited hence the accumulated share capital was insignificant. The membership was also restricted as the credit was provided only to those who could provide acceptable security. The small farmer who really deserved credit support could not enter the cooperative society due to built-in restrictions. However, the period marks the slow but gradual expansion of the concept of cooperation, trust and mutual support as well as the circulation of saving habits. In fact in 1931 which was the worst period during economic depression, there was Rs. 503,611 as savings deposits in the cooperative societies which was indeed a significant breakthrough.

3.2 There were two other types of societies established during the period namely:-

- Credit societies of limited liability;
- Cooperative Thrift & Credit Societies.

These were of course numerically small compared to the Credit Societies with unlimited liability. Nonetheless they performed a vital function in providing rural credit and spreading the concept of rural savings. By 1942 there were 1519 credit societies with unlimited liability, 103 limited liability credit societies, 164 Thrift & Credit Societies, making a total of 1786. The membership rose to 91,988 during the period, from 34,264 in 1926.

### **4. Secondary Level Institutions**

4.1 The period marks the formation of secondary level cooperative institutions which took the form of financial and banking establishments. The Colombo Credit Union of 1924, the Jaffna Cooperative Bank of 1926, Cooperative Credit Institutions in Kandy and Colombo were some of these unions. They were mainly concerned with providing credit facilities, guiding and supervising the lending system of the primary societies.

## 5. Development Phase of the Cooperatives

5.1 The Second World War brought a new dimension to the Cooperatives in Sri Lanka. In 1942, Government increasingly realized the necessity of creating state run retail outlets to distribute essential food items to the people as there were great possibilities of hoarding and profiteering by unscrupulous traders. The only outlet that was available for the purpose at the time was the Cooperatives. Therefore, Cooperative Societies were recognized as "stores societies". The primary function of these societies was the distribution of foodstuff on a rationed basis. This development marks the first occasion of the cooperative societies becoming agents of the state for distribution of food items.

5.2 In 1941, Agricultural Products Regulation was introduced. In 1942, there were 11 Agricultural Produce Sales Societies the most important of which were the Jaffna Malayalan Tobacco Producers Cooperative Sales Society and the Minneriya Paddy Sales Society. There were few other societies in Jaffna which were principally concerned with marketing of chillies and onions. The Northern Division Cooperative Agricultural Products Union was established by amalgamating these 5 societies.

5.3 In order to distribute the food commodities on a rationed basis the Marketing Department commenced purchases of rice, chillies, onions, etc. and the cooperative societies became the agents who collected and sold these items to the state. The Palugama Vegetable Sales Society established in 1942 was the pioneer in the field of cooperative marketing of vegetables.

5.4 The Internal Purchase Scheme initiated by the government to purchase agricultural produce and the Agricultural Products Regulations Ordinance gave special strength to the development of the Agricultural Cooperatives.

5.5 The period marks the expansion of the Consumer Cooperatives as well as the emergence of the single purpose cooperatives in its earliest form. The creation of the Cooperative Wholesale Establishment in 1943 and the network of consumer cooperative unions mark the culmination of the process of developing the consumer cooperative system.

5.6 After the end of World War II the food situation improved and the enthusiasm for the consumer cooperatives gradually decreased. Weaker societies became inactive and inefficient. By the end of 1957 the number of consumer societies decreased to 2,569 with a membership of 689,842.



## **6. Cooperative Agricultural Production and Sales Societies (CAPS)**

6.1 The establishment of CAP Societies during 1947 was a historic step and a land mark in the evolution of the Cooperative Movement and the Agricultural Cooperatives of Sri Lanka. It was a product of necessity. After the World War II the Government increasingly realized the necessity of growing its own food and not depending on the foreign food commodities. This unleashed a tremendous force to expand the agricultural production base and to create the awareness of being self-sufficient in food.

Grow-More-Food was the slogan. Thrust towards this concept brought into sharp focus the urgency of organizing production system in the rural areas and supplying inputs such as credit, fertilizer, seed and also to take charge of marketing. The experience in the Cooperative Movement indicated that the cooperative societies would perhaps be the institution which could come into the system as a rural level organization. Therefore, in 1947 a scheme was launched to establish Cooperative Agricultural Production and Sales Societies (CAPSs) as Government policy. These societies made a rapid progress and by 1957 there were 995 CAP Societies with a membership of 246,776. The loans granted by them were Rs. 11 million and had a turnover of Rs. 140 million.

6.2 During the period the cooperative base was expanded and single purpose specialized cooperative societies such as Coconut Cooperative Societies, Fishermen's Cooperatives, Industrial Cooperatives were established. By the end of 1957 the total number of societies were 10,812 with a membership of 1,371,500.

## **1. AGRICULTURAL COOPERATIVES**

1.1 As indicated in the foregoing paragraphs, the Cooperatives in the early period were single purpose societies. Before Multi-Purpose Cooperatives came into existence the consumer and agricultural input services were provided by these societies.

### **2. Multi-Purpose Cooperative Societies (MPCSs)**

2.1 These societies occupy a commanding position in the Cooperative Movement. There are 286 MPCSs with a network of about 8,000 branches spread over the country. 1957 marks the beginning of the MPCS. Based on the recommendation of the Ministry of Agriculture and Food it was

decided to open one MPCs per village. The policy guideline given by the Hon. Minister at the time clearly explains the basic thinking. (quote) "The Cooperative Movement in Ceylon, I believe is unique in the apparent variety of forms. The 10,500 odd Cooperative Societies that exist today are of about 70 different types. Thus cumbersome organizational structure has resulted in an enormous dissipation of time and energy. An individual's interests as a consumer, borrower of money, seller of paddy, a seller of milk, a seller of coir products, etc. would necessitate his being a member of a number of societies with the result that he becomes no more than a 'Sleeping partner' so to speak of each of them. Thus interest in the societies gradually declines, his vigilance slackens and corruption among office bearers and employees goes unchecked. Above all, the dearth of managerial ability is made all the more pronounced by these numerous societies with very little business activity each having to employ its own manager on a paltry salary. The reorganisation of the Cooperative structure, I think is essential not only for the healthy growth of the movement but even for its continued existence. The reorganization I envisage is the replacement of the various types of cooperative societies by a single Multi-Purpose Cooperative in each village". (unquote)

2.2 The policy promulgation resulted in the conversion and amalgamation of rural "Stores Societies" and "Agricultural Production and Sales Societies" into Multi-Purpose Societies (MPCS). In areas where there were no MPCs new ones were created. Number of MPCs during 1957 was 146 and it increased to 1498 in 1958. By 1970 the number was 4011 societies with a membership of 913,700.

2.3 The main functions of these small MPC Societies were both distribution of food items as well as provision of agricultural inputs such as credit, planting materials etc. In 1970 some of these societies were federated at a level above the village which is named the District level. There were unions of the MPCs, which undertook consumer services.

2.4 The MPCs did not perform well. Of the 4011 societies only 2,552 societies provided more than one service. The agricultural support activities were basically granting of credit, purchase of paddy on behalf of the Government etc. By 1970 about 40% of the societies were defunct and were virtually non-operative. The turnover was inadequate and the area of operation was not economically viable.

2.5 A Royal Commission was appointed in 1968 to examine and report on various aspects of the Cooperative Movement as it was felt that though it had the potential yet the cooperatives had not transformed into effective

instruments of development. The Commission, amongst others, recommended that the Multi-Purpose Cooperative Societies as it existed then covered a small uneconomic area and that, it should be restructured and reorganised into large Primary Societies with a larger area of operation. Consequently 5818 small societies were amalgamated into 372 large Multi-Purpose Cooperative Societies.

2.6 The objective of reorganisation was to create viable cooperative outlets which are capable of performing consumer services effectively. Also the largeness of the society and the widening of the scope of activities were expected to pave the way for the development of managerial talents and capabilities.

2.7 Today there are 286 MPCs with a membership of about 2.2 million and a total turnover of Rs. 11 billion and of 41,400 employees in the cooperative sector with MPCs employees 31,851.

The societies perform a mixture of functions :-

- Provision of consumer goods;
- Supply of Agricultural Credit;
- Marketing;
- Rural Banking;
- Transport;
- Contracts.

2.8 Presently the main activity of these societies has been the provision of food items to the specially selected category of poor persons free of charge through a scheme called Food Stamps Scheme and the supply of food to other customers. However the sales of consumer goods through MPCs has demonstrated a decreasing effect primarily because of the severe competition from the private sector consequent on the liberalization of the economy.

### **3. Agricultural Support Activities**

#### **3.1 Credit :**

Basically there were two activities, namely, supply of agricultural inputs as well as marketing. During the period prior to 1977 the entirety of rural credit had been channelled through the MPCs as agent of the People's Bank. The service was extremely satisfactory and the recoveries were about 85-90%. However, there were policy variation when Govern-

ments changed which resulted in the severe drop in the recovery rates.

### 3.2 *Fertilizer* :

Retail trade of fertilizer has been an important agricultural service performed by the MPCs. The fertilizer distribution is through several agencies :-

1. Cooperative Societies;
2. Agrarian Services Centres;
3. Private dealers;
4. Government agencies.

Due to the proximity of the MPCs to the farmers the sale of paddy fertilizer has become very satisfactory.

### 3.3 *Rural Banking* :

In addition to agricultural credit, the provision of rural credit through Rural Banks has been an important area of MPCs activities. These Banks are called Cooperative Rural Banks (C.R.B). These Banks were inaugurated in 1964 with the initiative of the People's Bank, and the main focus was to provide agricultural credit to the rural people. In 1986 there were 932 CRBs covering the entire island. These Banks provided loans upto Rs. 35,000 per member and provided deposit facilities. In addition these branches were engaged in pawn-broking as an agent of the People's Bank. The loans provided by the Cooperative Rural Banks covered a variety of activities, such as paddy farming, animal husbandary, cottage industries, house construction, debt redemption, consumption, etc.

### 3.4 *Processing* :

Presently the most prominent processing activity undertaken by the MPCs is rice milling. These societies own and operate 42 rice mills. In 1983, 22% of the total paddy procured by the cooperatives were milled. It should however be stated that the paddy milled in these societies were not of high quality because the mills were not the modern sophisticated type, and there is no programme to upgrade these mills either. Although the expectations of the MPCs were to discharge a multiplicity of functions and services to the rural people yet they increasingly dwelled on consumer services by providing food and other commodities. The agricultural services were limited and there were other competing agencies which could provide these facilities. Hence their effectiveness in the agriculture

field was limited and circumscribed.

#### **4. Milk Producers Cooperatives :**

4.1 The first Milk Producers Cooperative was established in Bingiriya in 1930. Thereafter the Jaffna Dairy Society was formed and these two societies continued for about 25 years. Their main functions were collection of milk and distribution to consumers and to hospitals. This was followed by the Colombo Cooperative Milk Union. During 1952, there were 13 Milk Producers Cooperatives. Out of these societies the Colombo Cooperative Milk Union was in sound footing and it had a pasturization plant. The suburbs of Colombo and the Government hospitals were supplied with milk by this society at the rate of 55 cents a litre. In 1956 total sales were 2.17 million litres.

4.2 The establishment of the National Milk Board in 1955 marks a new era of the Milk Producers cooperatives. It started selling milk 5 cents less than the societies and this resulted in several milk cooperatives going out of business. The supply function of Milk to the Cooperatives too were handed over to the National Milk Board. The expansion of the business activities of the National Milk Board necessitated the appointment of agents and new societies were formed whose principal function was to collect milk and handover to the National Milk Board.

4.3 Between 1975 and 1976 the creation of single purpose Milk Cooperatives received priority and the number functioning too were drastically reduced. Private collectors immediately filled the vacuum by entering the market. The Milk Producers Cooperatives during this period were primarily engaged in collection of milk from the members and distribution to outsiders. There were no member involvement at required levels of management. No special benefit were bestowed on the membership. Consequently there was no active membership which was desirable to any cooperative society.

4.4 1978 marks the beginning of a definite programme of establishing milk producers cooperatives with early defined roles and objectives. The Polonnaruwa Milk Producers Cooperative Society which was established during the period marks the beginning of this era. 14 village level small dairy societies which had been functioning in a rather disorganized manner were amalgamated into one large single society covering the entire administrative District of Polonnaruwa. This society had all the ingredients of a well organised dairy society. It had the capital for purchasing an early payments system to the members, and an extension and veterinary

services at Government expense. The profits were shared after a stipulated period. This organization provided tremendous benefits to the members.

4.5 Based on this experience several other milk cooperatives were established, in Hambantota, Anuradhapura and Puttlam Districts. These societies thrived well principally because of the state support. All Government agencies and the senior officers of the respective Districts extended support particularly in providing equipment, vehicles, and extensive services to these societies.

4.6 Fully developed Milk Cooperative Unions came into existence during this period. The village level milk producers in the Coconut Triangle were organized into small primary cooperatives and were affiliated to the Coconut Triangle Milk Producers Cooperative Union. More and more producer groups were formed to expand the base and more primary societies were established. At present, there are 72 such societies affiliated to this Union. Daily collection of milk by the Union is about 15,000 litres and apart from the sales as fresh milk a part is also processed as butter, yoghurt, ghee and curd.

4.7 A noteworthy feature, and perhaps a point of strength is that the primary societies in the mid-country had a larger area of operation covering several villages and sometimes an entirety of an administrative division. The daily collection of these societies was about 30,000 litres. Subsequently, these societies formed into a Union which is called the Mid Country Milk Union.

4.8 Asian Development Bank sponsored Livestock Development Project was inaugurated in 1983. This project gave a helping hand to the expansion of the Milk Cooperatives in the country. 5 Districts namely, Colombo, Gampaha, Kalutara, Kegalle and Galle have been selected for the purpose and already there are 10 Milk Producers Cooperatives functioning now. Under this project facilities such as vehicles, equipment, personnel have been provided, and the veterinary support and the extension services are being provided by the Department of Animal Production and Health.

4.9 Similar system is being operated in the Mahaweli Development area, the largest single agriculture-cum-energy generating project established in the country by harnessing the potential of the largest river. Here again primary Milk Production Cooperatives have been formed, affiliated to a Union. 16 such primary societies have been affiliated to the Bintenna

Milk Producers Cooperative Union. For this purpose the Mahaweli Authority has obtained assistance from the European Economic Community for a processing factory. The entire milk supply is now being processed into flavoured bottled milk and yoghurt. In system 'H' of the Mahaweli Development area, 7 village level Milk Cooperatives are functioning. Programmes are underway to expedite the formation of milk cooperative in the surrounding areas as well.

4.10 The Integrated Rural Development Project in Moneragala District which was started in 1985 gave a similar support to the formation of dairy cooperatives in that District. 11 primary Cooperative Societies have been formed which are affiliated to the Union at Moneragala. In 1987, a Union was formed by joining the Milk Cooperatives of Kandy, Matale, and Nuwara Eliya Districts to processing of milk. The ground work is now complete and the services are being extended for the purpose.

4.11 Under the World Bank assisted Dairy Development Project II a new development is visible in the evolution of the Milk Cooperatives in the country. For the first time the cooperatives are being re-modelled on the lines of a Company structure with four tiers:

1. Dairy Development Foundation Ltd.;
2. Milk Industries of Lanka Company Ltd.;
3. Milk Shed Producers Company Ltd.;
4. Village Milk Producer Companies.

4.12 The primary objective of the dairy development foundation Ltd. (D.D.F.) is to promote and assist the dairy industry in Sri Lanka. This is a Government sponsored establishment which has the power to grant aid both financial and material and to develop other agencies. Milk Industries of Lanka Company Ltd. (MILCO) has replaced the National Milk Board which was referred to earlier. This agency will be fully involved in purchasing, processing, marketing of milk and dairy products. This is a public limited liability company and 51% of the shares will be sold to the public and 49% will be owned by Milkshed Producer Cooperatives.

4.13 Five Milkshed Producers Companies have been planned to be established in the District of Colombo, Kandy, Jaffna, Moneragala and Polonnaruwa. These companies undertake setting up of chilling centres, transport of milk from MPCs to chilling centres, providing technical and extension support and also training for village Milk Producer company staff and farmers. Village Milk Producer Company (VMPC) was the bottom level organization in the structure. These companies are expected to collect

and test milk from the member farmers and provide pre-veterinary services and extension support.

4.14 One significant feature was that under the World Bank sponsored project the cooperatives were not included. However, due to subsequent discussion and pressure from the Cooperative Movement these Milk Producers Cooperatives too were recognized as partners of the process. In 1982 there were 82 societies with a membership of 17,668 and the total milk collected was 317,391 litres. These Milk Cooperatives were primarily engaged in collecting and distributing milk from the members to other agencies. Payments are based on the fat content. Some of the specialized services rendered by these societies are :-

- provide loans to members to purchase cows;
- cattleshed improvement;
- artificial insemination;
- veterinary services;
- supply of cattle feed;
- supply of medicine;
- cattle insurance;
- training and member education;
- processing.

It must be stated that 75% of the Milk Producers Cooperatives are managing satisfactorily.

4.15 Fourteen Societies have gone into the field of milk processing, yoghurt and ghee marketing. In 1986 these societies have sold 127,929 pots of curd, 1,135,786 cups of yoghurt and 5,362 bottles of ghee. The Coconut Traingle Milk Producers Union is expanding its processing facilities and several dairy products are now being supplied to the market. This Union processes 900 litres of milk per day and the income realized for this alone is Rs. 400,000 annually.

4.16 As a policy it has been decided to continue the establishment of more Milk Producers Cooperatives at the field and affiliate them to the Unions. The present system of Provincial boundaries will be recognized in developing the structure of the cooperatives in the future.

## **5. Coconut Producers Cooperatives**

5.1 The earliest Coconut Producers Cooperative was formed in 1940. The main objective during this period was to process copra as there was a



growing demand for copra. Marawila Coconut Producers Cooperative was the first to start buying and processing coconuts. This was followed by the Dunagaha Coconut Producers Society which was formed with only 18 members. The Third society which was formed on this basis was the Sandalankawa Coconut Producers Cooperative. The first Coconut Producers Cooperative Societies Union was formed in 1947 by joining the above three societies. The main activity during this period was processing of copra and for the purpose the societies commenced a programme of buying small holder coconuts. This was a very beneficial step as during the period one major problem faced by the small farmer was the insecurity of the market.

5.2 During 1947 the Government allocated a quota of 5,000 tons of desiccated coconut to the cooperative union as there was a foreign demand for quality desiccated coconut. Further, funds were made available for the Union to put up coconut mills and the first desiccated coconut mill was established at Dunagaha with a loan of Rs. 200,000 from the Government.

5.3 These societies faced a major problem of survival when the quota system was discontinued by the Government. Most of the D.C. mills were closed as they could not compete with the private trade. A major financial problem was faced by the cooperatives because the D.C. mills were put up with Government loan and their income was insufficient to repay it. To rescue the societies from this situation the Government again granted a loan to be paid back in 40 years. The Coconut Producers Union tried to manage the D.C. mills but it could not do so. Today there are only 6 large scale coconut producers cooperatives and 5 village level societies.

5.4 The Coconut Producers Cooperative Societies serve a membership of 3,247 and there are 228 permanent employees and a labour force of 1298. The main areas of assistance to the members are paying of higher prices for coconut, provision of credit facilities, supply of fertilizer seedlings on concessionary terms and extension and advisory services to the small scale coconut growers. At the end of the year members are also paid a part of the profits. Since processed products such as oil, desiccated coconut, copra, coir, charcoal, and coconut shell fetched high prices these societies are able to manage efficiently. Dunagaha Cooperative Society alone paid as the second payment Rs. 338,858 during 1983.

5.5 Sri Lanka Coconut Producers Cooperative Union was formed in 1947 as the apex organization of the coconut producers cooperative societies. Today union membership consists of 11 primary societies with a

share capital of Rs. 64,884/-. Out of these 6 are engaged in processing and the balance are village level small societies.

5.6 The Board of Directors of the Union consists of 5 members elected at a General meeting. The term of office of a Board member is for 3 years. The main functions of the Union are :-

- export of coconut products;
- sale of products as a broker;
- sale of coconut oil;
- soap manufacturing;
- provision of financial assistance to member societies.

## **6. Rubber Producers Cooperatives**

6.1 Rubber is essentially a small holder commodity. Therefore, there was a necessity of upgrading quality of rubber produced by them. The Rubber Research Institute was established to provide the technical and extension support and it was thought that the best way of improving the small rubber producer was to organize them into producer cooperatives. Accordingly in Kalutara, Kegalle, and Kandy Districts first three societies were formed:-

- Molkawa Rubber Producers Society;
- Kaluagalla Rubber Producers Society;
- Hataraliyadda Rubber Producers Society.

6.2 The Ministry of Plantation Industries in 1970 launched a programme of upgrading the quality of processed Rubber and for this purpose Rubber Advisory Service Department was established. Group processing was one important step undertaken by this Department and several groups were formed in the Kalutara, Kegalle and Ratnapura Districts. Under this programme smoke houses, rubber rollers, equipment, cash advances were provided. The main activity of these centres was processing of the latex into sheet rubber and market them at reasonable prices. Policy decision thereafter was taken to create Rubber Producer Cooperatives by reorganising these groups.

6.3 In 1984, 53 Rubber Small Holder Cooperatives were created with a membership of 1385. In addition Multi-Purpose Cooperative Societies too started purchasing the processed rubber from the small producers. In 1968 Rubber Producers Cooperative Union was formed. All small Rubber Producer Cooperatives which were engaged in rubber processing became

members of this Union. The group processing activities were enlarged and this provided a great relief to the small producer who lacked capital and resources to have processing facilities of their own.

6.4 Marketing and the supply of inputs became extremely efficient as a result of the formation of cooperative societies at the village level and the affiliation of these to the Union. The Department of Cooperative Development took a special interest and arranged the M.P.C.S. also to engage in this activity in the high rubber producing areas. This Department too expanded group processing centres in the Kalutara District. The Export Development Board provided funds for this programme and all equipment, pots and pans were supplied. The MPCs were encouraged to set-up their own group processing centres. The first processing centre was established at Kuruwita in the Ratnapura District and thereafter similar processing centres were set up in Warakapola, Eheliyagoda, Agalawatta, Ruwanwella, and Bambarabotuwa MPCs.

6.5 The Village level Rubber Producer Cooperatives did not progress satisfactorily. Lack of capital, lack of interest of the officials, and the MPCs concentrating more on other areas led to the gradual decline of the activities of the societies. The quality of the sheet rubber that was produced was inferior. In order to avoid this situation major training programme was launched with the assistance of the FAO to train producers in quality processing. By and large, the main contribution of the Rubber Producers Cooperatives was the creation of an assured market.

## **7. Tea Producers Cooperative Societies**

7.1 These societies were formed on the same basis as the Rubber Cooperative Societies mainly to organize the inputs as well as marketing of small holder tea. There were 11 Tea Producers Cooperatives functioning at the end of 1986. 2 societies out of 11 were engaged in processing and the balance was only concerned with the purchase of green leaves. The Morawakkorale Tea Producers Cooperative and the Gangabodapattu Tea Producers Cooperative both in Galle District were the first to be engaged in processing. They owned 3 factories. The Morawakkorale Tea Producers Cooperative in particular is operating and managing very efficiently 2 factories with the capacity of 25,000 kg. of green leaves per day and the sales are satisfactory. In fact, in addition to the usual payment to the members at the point of purchase the society was able to pay dividends to the members as well. This society has made a surplus of Rs. 7.2 million in 1984.

7.2 Tea Producer Cooperatives are basically concerned with purchasing of green leaves, providing loans, fertilizer and even consumer goods to the members. Considering the totality of the Tea Industry the role played by these societies are marginal because the main tea producing areas are serviced by large private companies and the management of large estates is directly under them. Nevertheless the limited role played by the cooperatives are satisfactory in that it served the small producer particularly in regard to marketing and stabilizing of prices.

## **8. Fishermen's Cooperative Societies**

8.1 The Department of Fisheries took the pioneering step of encouraging and supporting the establishment of Fisheries Cooperative Societies in 1941. A loan scheme was started during this period as the first step in developing the programme. In 1950, the Department of Cooperative Development and the Department of Fisheries jointly formed these societies. There were 2 types of societies in the early phase of development, namely those societies where boats and other equipment were owned by the society and those where individuals owned all equipment, but society provided only the inputs such as credit facilities and the marketing of fish.

8.2 In 1943 there were 43 Fishermen's Cooperative Societies with a membership of 1,855 and this was increased to 124 societies with a membership of 4,825 in 1954. In 1952 the Cooperative Fish Sales Union was formed to function as the apex society. In 1964 however, due to a policy decision taken by the Government, the Fisheries Corporation, a state run organization, was formed and the Fish Sales Cooperative Societies Union was persuaded to transfer their business and marketing activities to the new Corporation.

8.3 Some of the Fishermen's Cooperatives progressed during this period notwithstanding the establishment of the Fisheries Corporation. The Northern Province Fishermen's Cooperative Societies Union and Kalmunai Fishermen's Cooperative Union are two of these which progressed. They were mainly concerned with providing credit, fishing gear and marketing. In 1968 this Union was in a position to enter the export trade and processed fish and sharkskin were exported.

8.4 In 1972/73, 271 Fishermen's Cooperative Societies were amalgamated into 45 large scale Fisheries Primary Societies as part of the programme of the Department of Cooperative Development to merge together very small unviable societies. These large primary societies were the most convenient branches from where credit and marketing could be

arranged. Therefore, these societies were recognized as the agents of the Fisheries Corporation, particularly for the sale of fishing gear. Credit was provided by the Director of Fisheries for these societies to purchase mechanized boats and fishing gear. In 1973 the Fishermen's Societies owned 499 mechanized boats.

8.5 By and large, the Fishermen's Cooperatives do not appear to be progressing well, despite the massive Government support. The turnover decreased and many societies are marking losses. As at 1986 there were 68 Fishermen's Cooperative Societies with a membership of 216,464. Out of the active societies 11 are supplying fishing gear, 4 are supplying petroleum products, 6 run sales points, and 2 maintain auction yards and 1 society has an Ice plant. However, the Ministry of Fisheries has launched a programme to form Fishermen's Cooperatives again in the high fishing areas as Government policy.

## **9. Vegetable Growers Cooperative Societies**

9.1 In the principal vegetable growing districts several cooperative societies have been formed mainly to supply inputs such as seed, fertilizer, and credit as well as to provide marketing facilities. There are 9 Vegetable Growers Cooperative Societies in the Nuwara Eliya District, but the service that is being provided is rather limited. The organization is weak and there is no secondary level society to which these small cooperatives could be linked. The Department of Cooperative Development is now in the process of establishing Secondary Societies and subsequently linking it with an Apex. Further, there is also a programme of developing inter-cooperative societies trade, particularly in vegetables. This organization is still in the formative stage and there is a long way to go to make them strong people's institutions.

## **10. Farmer's Cooperatives**

10.1 A novel experiment was conducted by the Department of Cooperative Development to establish farmer cooperatives in a major irrigation settlement scheme where the boundaries of settlement units were clearly demarcated. This settlement was the largest river-diversion irrigation system where the main objective was to develop settled agriculture under irrigated conditions. Rice and other field crops such as chillies, onions, pulses, roots and tubers were the main crops grown.

10.2 Thirteen Farmer Cooperatives have been established in system 'H' of the Mahaweli scheme. The primary objective was to provide credit,

agriculture support, planting materials and seed, agro-chemicals and fertilizer and afterwards to purchase the products. One noteworthy feature of these societies is that the member participation in the society activities is extremely satisfactory. They attend the regular meetings of the society and discuss programmes. The credit disbursement and recoveries are high. These societies have succeeded in reaching and entering the lives of the members. Out of the 13 societies 11 have recorded a profit of Rs. 357,711/-.

## **11. Cooperative Rural Banks**

11.1 The necessity of providing facilities to the rural borrower was increasingly felt. At the same time there was also a view that the Commercial Banks usually located in the cosmopolitan areas and in township and whose primary inclination was business transactions, would perhaps not be sensitive to the aspirations of the rural borrower and that it would be advantageous if an institution could be created which is within the reach of the farmer in all aspects. The Rural Banks established in 1964 to fulfil this objective was an important step in expanding the institutional base of mobilising savings, expanding credit, and providing same facilities to the rural villagers as the Commercial Banks for the town-dwellers. During the initial phase rural banks were set up only in Cooperative Societies. At the end of 1966, 13 Rural Banks were established and it was expanded to 111 at the end of December 1971. After 1972 the number increased due to the reorganization of the MPCs and the Government decided to attach a rural bank to each of the reorganized MPCs. After 1972 these banks were called Cooperative Rural Banks (CRBs). In 1972, 131 new Rural Banks were established and by the end of December 1974 it rose to 341. In 1984 it expanded to 888 and on its 25th Anniversary it reached 1,000.

11.2 By 1970 Rural Banks had a surplus of Rs. 7.8 million. In 1980 it had risen to Rs. 191.6 million and at the end of 1987 the surplus had increased to Rs. 851.4 million. Pawning of Jewellery constituted a major activity of these banks and a large share of the credit disbursement had been on account of pawning. These banks have been successful in mobilizing the rural savings, but it has so far not been able to develop itself into an effective instrument of financing rural enterprises.

## **12. Thrift and Credit Cooperative Societies (TCCSs)**

12.1 The concept of having Thrift & Credit Cooperatives was observed even during the early period of the establishment of Cooperatives in the country where the main focus was credit. The real emphasis for the

expansion of Thrift & Credit Cooperatives (TCCSs) was observed after 1978. The Kegalle Thrift & Credit Cooperatives Union was formed in 1978 and an important seminar was organized by them in order to clarify the role and the future of these cooperatives. The objectives are, to:

- a) aid and assist the members to identify and to provide relief to be determined by the membership;
- b) organise funds and other support outside the country;
- c) provide leadership and management skills to the members.

Several seminars and workshops were held and the by-laws of the TCCSs were amended to reflect the new role.

12.2 Each TCCS generally covers about 200 - 300 families. It has three important segments :-

1. General Body;
2. Board of Directors;
3. Sub-committees.

Prior to 1978 TCCSs were organised at the village level where their roles were limited to savings and credit. Meetings were held once a month to transact main business. There were no organizational set-up to guide and direct the primary TCCSs during this period. Thereafter District Unions were formed in order to provide a strong institutional structure. There are 5,885 primary TCCSs and 26 District TCCSs covering a membership of 568,300 members. Each primary TCCS is an independent autonomous unit which determines its resource mobilization, credit disbursement limits, recovery procedures and the interest rates. The significant features of its operation are, low cost, and people-based. It takes the form of a village level financial institution which generates and mobilizes its own resources and invest them within the village for the benefit of its members.

12.3 There are 1,900 TCCSs which do not have day-to-day operations but manages its affairs by meeting once a month. 2,300 TCCSs are classified as Grade II where the business transactions are more. 1,200 TCCSs have been classified as Grade I and it has its own offices, counters to release funds and to attend to day-to-day operations. The main operational unit of the TCCS is the District Level TCCS Union which is more concerned with providing training and coordination of inputs and sales. The branches or the members of this Union are the primary TCCSs the district.

12.4 The 3rd tier is the Apex - the Federation of Thrift & Credit Societies. This is primarily engaged in long term technical assistance, servicing the District and Primary Societies particularly in providing training and management of credit disbursement operations.

12.5 Unlike other cooperatives the TCCS is essentially an agency which deals with all aspects of community development. It provides service such as credit for variety of activities including agriculture, housing, input supplies for agriculture, marketing, and a wide range of community development programmes. Target groups are village based groups, women groups, small farmer groups, fishermen and craftsmen groups, etc. Training, motivation, and community participation serves as a central thread in the TCCS system. This is essentially a people's movement where decisions are taken by the individual societies. During 1988 Rs. 154 million has been disbursed as credit facilities and the recoveries are about 97% of disbursement, which by itself is a remarkable feature in rural lending.

### 13. Organizational Structure

13.1 As in many countries in the region, the Cooperative Movement in Sri Lanka has a three tier structure, namely, Primary, Secondary, and Apex Level. However, it should be pointed out that this structure is not in existence in regard to all types of cooperatives as a general rule.

13.2 Primary level societies are the base and the foundation of the Cooperative Movement. These societies are autonomous and controlled by the members who are the owners. There are about 8,000 primary societies of different types. Members have a direct involvement in the affairs of the society except in the case of MPCSSs. Usually in the primary societies the General Body consists of the total membership, and as such, participation of members is direct and effective. This scenario was observed even in the MPCSSs prior to 1971. At that time there were more than 5,000 MPCSSs. Although they were expected to perform a variety of functions, their main concern was consumer trade. Hence, the MPCSSs became closer to the members as well as the non-members making its activities more complex.

13.3 Since the MPCSSs were engaged in consumer trade, they had to be economically viable. As small units are not usually viable and unable to attract efficient personnel, in 1970 these MPCSSs were amalgamated making the areas of operation much larger. This amalgamation resulted in changing the structure of the MPCSS which was not seen in other types of primary cooperative societies.



13.4 The present day MPCs has a main office or headquarters from where the management decisions are taken. But the whole area is covered by as many branches as seem necessary to give reasonable service to the members. Members of each such branch will elect the branch committee of 9 members which operates under the authority of the Board of Directors. This Committee does not have the power to manage the affairs of the branch. It only represents the membership at the General Body of the main society. Hence, it should be seen that these committees are given imaginary duties and make-believe responsibilities but not real powers.

13.5 The General Body of the MPCs consists of the members of the Board of Directors and delegates representing the branches of the society. The number of delegates from each branch is determined on the number of members. However, every branch is entitled to send more than nine.

13.6 There are Annual meetings as well as special meetings of the General Body. The business that is transacted at these annual meetings are :-

- (a) Election of Board of Directors;
- (b) Consideration of the audited statement of Accounts of the report of the auditors;
- (c) Consideration of the Annual Report of the Board of Directors;
- (d) Disposal of the profits of the Society in accordance with the By-Laws.

13.7 The Board of Directors is elected at the Annual General Body of the society for a period of 3 years. It consists of 7 members. The functions of the Board of Directors are:-

1. Elect from among themselves a President and a Vice-President of the Society;
2. Co-opt persons to fill vacancies occurring in the Board of Directors. A co-opted member of the Board of Directors shall hold office until the next meeting of the Annual General Body;
3. Determine any appeal made by any person from the decision of a Branch committee to cancel his membership;
4. Determine, subject to the maximum imposed by the General Body, the sources from, and the terms and conditions subject to which resources from, required for the operation of the Society may be obtained;
5. Secure the services of a General Manager and other senior Management Personnel under a scheme approved for the purpose by the Commissioner and subject to such terms and conditions of salary, disciplinary control and dismissal as may be prescribed by such scheme.

6. Acquire by purchase of otherwise such fixed assets are needed by the Society with the prior approval of the General Body;

7. Sell any fixed assets held by the Society with the prior approval of the General Body;

8. Allot shares, authorise the transfer of shares, and business organizations;

9. Institute, conduct, defend, compromise or abandon legal proceedings through any officer or employee of the Society;

10. Draw up schemes for granting loans;

11. Appoint such sub-committees as may be necessary in the attainment of the objects of the Society.

13.8 A General Manager is appointed by the Board who will function as the Chief Executive Officer. He will be responsible to the Board of Directors for the efficient operation of the business of the society.

13.9 It is generally agreed that the existence of strong secondary and apex organizations is an indication of maturity in a system of cooperation. Although there are 9 Apex level organizations in respect of different types of cooperatives only a few are seen vertically integrated at the secondary level. The Thrift and Credit Cooperative Societies and youth Cooperatives have formed into district level secondary organizations under whose supervision the primary level societies function.

13.10 In the management system of the Cooperative Movement the top-most tier is the Apex Societies. There are 9 such organizations:

1. Sri Lanka Cooperative Marketing Federation Ltd.;
2. Sri Lanka Rubber Cooperative Societies Union Ltd.;
3. Coconut Producers Cooperative Societies Union Ltd.;
4. Sri Lanka Fisheries Cooperative Federation Ltd.;
5. Sri Lanka Industrial Cooperative Societies Union Ltd.;
6. Thrift and Credit Cooperative Federation Ltd.;
7. National Youth Services Cooperative Federation Ltd.;
8. Piggery Producers Cooperative Union;
9. Poultry Producers Cooperative Union.

13.11 Generally, these apexes are composed of delegates from the secondary level organizations. However, majority of the apexes have primary societies as members, due to the non-existence of secondary level unions. The Apexes are supposed to represent the views of its member societies and should keep itself closely and fully informed as to their position and needs. The procedure and conduct of affairs will be deter-

mined by the by-laws passed by the General Body which reflects distinct identities of the respective cooperative organizations.

#### **14. The National Cooperative Council of Sri Lanka**

14.1 The National Cooperative Council is the ideological apex organization of Cooperative Movement. This type of an organization is necessary for the expression of collective views of the cooperatives of the country on policy matters.

14.2 Each Assistant Commissioners Division has a District Council of the NCC in which all types of cooperative societies are represented. The district level Board of Directors consists of 13 members. Twelve are elected by member societies and one person is nominated by the Commissioner to represent the Womens' Committees. These delegates form the general body of the National Cooperative Council which elects the Board consisting of 13 members including the President. Nine members are elected on a provincial basis and three are elected to present the Apex organizations, and its term of office is 3 years. A significant feature is that the President of the Board is elected by the General Body deviating from the usual practice of electing the President by the Members of the Board.

14.3 The objective of the NCC is to develop the cooperative movement in the country. The responsibilities of the NCC are :-

1. to promote and develop the cooperative movement;
2. to assist in the formulation of cooperative opinions and to be the spokesman of the cooperative movement;
3. to organise cooperative education and training programmes;
4. to promote research;
5. to develop inter-cooperative relationship.

14.4 The activities of the NCC is now confined mostly to education and training. It has so far not been able to develop linkages with business activities of different sectors of the movement. Hence, its activities have to be expanded into other areas so that the member societies could be better served and a strong bond can be developed between the Council and the member societies.

## 1. MANAGEMENT AND CONTROL SYSTEM

1.1 The Management and Control Systems are basically similar in the different types of cooperatives. However, depending on the diversity of business activities and the services, the organizational structure varies. Accordingly, the control systems too take different forms. But, by and large, the basic elements of management and control systems of all societies have similarities and uniformities of operations.

1.2 It may be desirable to analyse the management aspect of agricultural cooperatives in relation to various types of such societies operating in Sri Lanka. Basically, Agricultural Cooperatives could be grouped into two categories, i.e.:

- i) Multi-Purpose Cooperative Societies (MPCSs);
- ii) Agricultural Producers Cooperatives.

In view of the large percentage of the membership and the multiplicity of services and functions, the MPCSs at present, are the most important type of Cooperatives.

To examine the management and control systems of the cooperatives it is proposed to examine the systems adopted in:

- a) a multi-purpose cooperative society;
- b) a single purpose cooperative society;

### 2. Structure of Management of MPCS

2.1 The structure of management consists of a Board of Directors and a General Manager, who is the Chief Executive, and a number of Departmental and Sectional Heads. While the decisions relating to strategic planning are taken by the Board, the Chief Executive and the Sectional Heads are responsible for planning and programming of operational activities. The nature of planning decisions of the Board of Directors include defining objectives, evolving strategies, choosing alternatives, fixing goals, laying down policies on members, organization, personnel and business methods.

2.2 There are three levels, namely :-

- Management level;
- Supervisory level;

Operational level.

This structure is shown in the organization chart

### **3. Management Level**

#### **3.1 *General Manager :***

The General Manager occupies the most important position in the society. He is the Chief Executive Officer and is in-charge of the administration of all employees of the society. He supervises all branches and activities and is responsible to the President and Board of Directors. All communications and informations flow to the President and to the Board of Directors through him by way of Board papers. He is recruited by the Board and the qualifications, salary and other remunerations are specified for this position. In certain Multi-Purpose Cooperative Societies where there is a heavy work-load on agricultural activities, a Deputy General Manager is appointed, who is expected to relieve the General Manager from duties connected with agricultural services.

#### **3.2 *Accountant :***

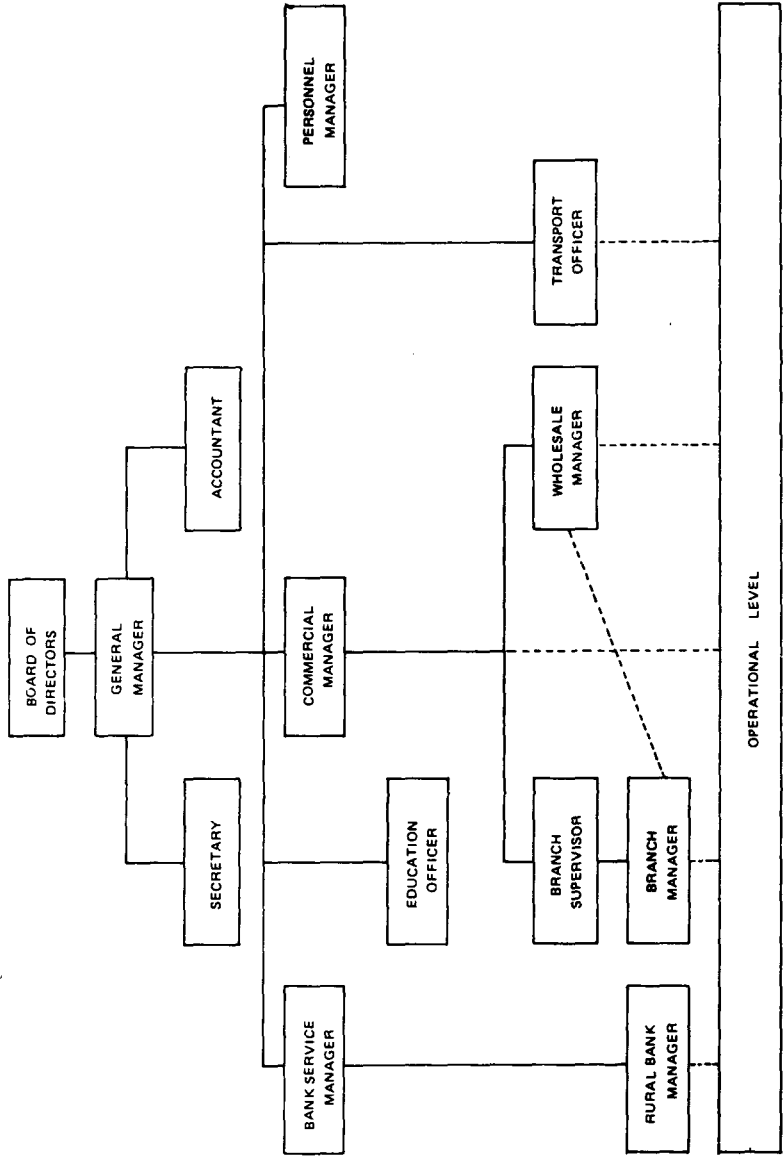
The Accountant occupies an important position as the General Manager. Usually he is called the Finance Manager. He is recruited by the Board of Directors and is responsible to them. His principal function is to analyse all financial statements, returns, and other documents and also to brief the Board of Directors in regard to the financial aspects of the society. All management decisions of financial matters are taken based, on the advice of the Accountant.

It is his duty to analyse the performance of the Society every month, as stated in the F 28, about which a description will be given later. This analysis is submitted to the Board meetings so that they could take management decisions. He associates very closely with the General Manager in making recommendations to the Board.

#### **3.3 *Bank Services Manager :***

His primary duty is to service the Cooperative Rural Banks attached to the MPCs. Normally, the post of Bank Services Manager is created for those societies having 3 or more branches of Cooperative Rural Banks to facilitate the operations. He is primarily concerned with providing education, guidance, advice and support both to the borrowers as well as to the

THE OPERATIONAL CHART OF A MULTI-PURPOSE COOPERATIVE SOCIETY



Bank staff. He is expected to look closely at the type of investment and provide advice as to how advantageously investment could be made, the nature of the projects that can be developed from the funds released to the borrowers etc. The over-all credit system within the accepted policy guidelines are provided by the Bank Service Manager. One of the principal areas of rural lending is pawn broking. The Bank Services Manager is expected to provide the necessary facilities and support to the activities in the concerned branches.

#### 3.4 *Commercial Manager :*

The Commercial Manager is the key official in the consumer section of the Multi-Purpose Cooperative Society. His main task is to plan out the consumer activities and set-up the consumer section of the MPCS. He is expected to assess the requirements of various branches and take final decision regarding the goods to be purchased and the stocks to be maintained. He also supervises the movement of consumer goods and ensures that no breakdown take place in this important branch of activity.

The requirements of consumer goods from the various branches are identified in a document called F.23 which is forwarded to the Wholesale Manager by the Branch Managers. This, in turn is submitted to the Commercial Manager who assess over-all requirements and pass it down to the Purchasing Committee for actual physical purchases. He should know the price levels, price trends in the markets, and seasonal gluts and shortages of goods.

Once requirements are purchased it would be his responsibility to ensure the correct distribution of these goods to the respective branches and this is being done under the over-all supervision of the General Manager of the MPCS.

#### 3.5 *Personnel Manager :*

The Personnel Manager is directly in charge of all administrative and establishment matters of the employees of the society. Their personal files are kept and maintained by him and their recruitment, promotions, transfers, disciplinary matters, payments and recoveries are handled by him. His duties are basically to provide administrative support to the General Manager. Usually this post is created only in those societies with more than 100 employees. All rules and regulations governing the establishment matters of the employees are pre-determined and are provided in

the Cooperative Employees Commission Act and the regulations. In addition instructions are issued from time to time for the purpose both by the Cooperative Employees Commission and the Department of Cooperative Development.

### 3.6 *Education Officer :*

The Education Officer performs a vital role in regard to the dissemination of cooperative education and provides guidance to both members as well as to the employees of the society. He holds the dual position of the member relations officer as well as the Public Relations Officer and is the link between the society and other educational institutions such as the Department of Cooperative Development, National Cooperative Council, etc. In addition to the role of disseminating educational information he too guides and directs the members in regard to investment, use of credit, project development, etc.

## 4. **Supervisory Level**

### 4.1 *Rural Bank Manager :*

His role is essentially the day-to-day operations and transactions of the Cooperative rural Banks (CRB). He is responsible to service the members and also to move the cash both ways. Since pawn broking is one of the important lending operations he is expected to closely supervise this Section of the Rural Bank.

### 4.2 *Branch Supervisor :*

As there is a large number of retail branches attached to a MPCS it is difficult for a person at the society office to have a close check on their activities. Therefore, Branch Supervisors are appointed, usually, one per 10 branches. These branches are grouped together usually 10 in each group and the Branch Supervisor does the over-all supervision of all activities of these branches. He is expected to bring to the notice of the relevant officials of the main office if he detects mal-functioning or operational problems.

### 4.3 *Wholesale Manager :*

He is in charge of the wholesale depot where all goods are kept in storage. From the depot goods are distributed to the branches, traders, and authorized dealers. His task is the storage and distribution of goods



and to feed back the information to the Commercial Manager and the General Manager.

#### 4.4 *Retail Branch Manager :*

He is mainly responsible to the day-to-day affairs of the branch and to see that both member and non-member consumers are supplied with their consumer needs.

### 5. Operational Level

This level constitutes all employees who do not take financial or administrative decisions but provides operational support to the Middle Level Management both in regard to the actual physical sales and services as well as scrutiny of documents flowing from the respective branches. Clerks, Stenographers, Typists, drivers, labourers, cleaners, salesmen form the operational level. Their method of recruitment, promotions, and disciplinary action are set-out in the rules and procedures and they are directly under the Personnel Manager. Clerks in particular provide extremely important support function where all documents, returns, summaries of the actual movement of stocks, business, are scrutinized checked and statements prepared. These are forwarded in turn to the middle management grade for decisions.

### 6. Management Information System

6.1 The Management Information system (MIS) operating in the MPCSSs and the Agriculture Producers Cooperatives has been designed as a management technique for monitoring of activities undertaken by each society. These systems differ both in content and design depending on the purpose for which they have been designed. These systems include information generated inside through numerous techniques and procedures adopted outside through different organizational methods inbuilt into the organizational structure.

6.2 The frequency of the information is based on the need and the use. In the MPCSSs, information is gathered through a set of forms used in day-to-day operations. Based on this information monthly financial results and a statement of operation is prepared and submitted to the Board of Directors. Similarly, other societies too forward specific information on the activities undertaken, either weekly or monthly. The format used in the MPCSSs consists of a set of forms. The statement of operations prepared every month which is called the F 28, is the final format which provides

adequate information to the Board in respect of various operational activities.

6.3 As far as possible, the reports reaching the top management in the MPCs have been designed to record non-essential information. Although this information is not received in the form of data analysed and presented in financial terms, they include vital information required for taking appropriate management decisions. Most of the information in Agricultural Producers' Cooperatives is received on the basis of schedules and targets.

## 7. Flow of Information

7.1 It is relevant to examine the series of forms used by the MPCs to gather information from branches to the main office in respect of all items of activities as well as the movement of information within the sections and branches in the main office and how it reaches the top management for decision making.

7.2 There are 34 forms used each carrying a serial number. A brief description of these forms and its functions in relation to the management for decisions are given below :-

- |   |   |
|---|---|
| 1. Petty Cash Book                              | Deals with the financial controls of main office and the retail branches  |
| 2. Retail Branch Petty Cash Book                |   |
| 3. Petty Cash Voucher                           |   |
| 4. Dishonoured cheques                          |   |
| 5. Cash Voucher                                 |   |
| 6. Maximum limits of cheques to be issued       |   |
| 7. Receipts                                     |   |
| 8. Payments                                     |   |
| 9A. Daily cash and sales of the Wholesale Depot |   |
| 9B. Retail Branches (same information as above) | These forms deal with all aspects of trade from wholesale to retail as well as the trading activities of all branches, complete financial controls is expected through this system of information |
| 9C. Wholesale/credit sales                      |   |
| 9D. Agricultural section daily receipts         |   |
| 9E. Rural Bank - Daily receipts                 |   |
| 10. Receipts                                    |   |
| 11. Cash certificates                           |   |
| 12. Cash movement to the bank                   |   |
| 14A. Wholesale Depot Cash Sales                 |   |

- |   |                         |
|---|-------------------------|
| 14B. Retail Cash Sales                                  |                         |
| 14C. Sales from Wholesale to retail Brs.                |                         |
| 14E. Sale of empties                                    |                         |
| 27. Daily bank balance                                  |                         |
| 15. Daily stock balance                                 |                         |
| 15B. Empty gunnies certificate                          |                         |
| 15C. Analysis of goods in retail and<br>wholesale depot |                         |
| 16A. Daily purchased at wholesale<br>depot              |                         |
| 16B. Daily purchases at retail Brs.                     | These forms deal with   |
| 16D. Daily reconciliation                               | the stock control,      |
| 17. Value of goods spoilt                               | stock movement, issues, |
| 18. Exchange of goods - retail Brs.                     | balances, ordering of   |
| 19. Exchange of goods - wholesale<br>depts.             | goods at Retail         |
| 20. Wholesale Depot goods analysis                      | Branches as well as     |
| 21. Stock Book  | all wholesale Depots.   |
| 21C. Stock Register - Fuel Station                      | The relationship        |
| 22. Stock taking sheet                                  | between the retail and  |
| 23. Retail branches indent                              | wholesale branches are  |
| 23A. Wholesale Depot - indent                           | clearly established     |
| 24. Ordering or indenting for the<br>Society            | through these forms     |
| 25. Issue Book  |                         |
| 28. Management information                              | The only composite      |
|   | statement prepared at   |
|   | the level of the MPCS   |
|   | which is presented      |
|   | to the management for   |
|   | decisions. This form    |
|   | reflects the total      |
|   | financial picture of    |
|   | the society.            |
| 29. Running Chart                                       | Controls in the         |
| 30. Daily returns                                       | transport section       |
| 31. Repairs   | and the analysis        |
| 32. Trading Accounts                                    | of the main             |
| 33. Profit and Loss Account                             | activities of the       |
| 34. Telephone calls register                            | society are given       |
|   | in these forms.         |

7.3 It would be seen that these forms constitute an important tool of management which covers all aspects of activities undertaken by a Multi-Purpose Cooperative Society. The information system that has been devised enabled the management to take an overall view of the performance of the society. The details given in the formats provide useful information to every branch manager, sectional manager to look closely at the activities of the society. It should be stated that financial mismanagement can be greatly reduced if the information called for by these forms are promptly and accurately furnished.

7.4 Special reference should be made of the F.28 which is considered to be the most important instrument of information transmission to the management in regard to the monthly performance of the society. This form covers all accounting aspects of the society. It deals with :-

- General profit and loss account;
- Trading Account - The Consumer Section;
- Consumer Section retail sales;
- Agency/marketing accounts;
- Profit and loss account of the Rural Bank Section;
- Transport Section - operational report;
- Motor vehicles operational account.

7.5 As this form contains data regarding performance in respect of each operational unit of the society, it is considered the most vital document to be submitted to the Board of Directors every month. A copy of this form is annexed. As a rule the Accountant of the MPCCS submits a report to the Board regarding the variances and shortcomings in the vital areas of the operational activities as shown in the "Form 28", which is always compared with that of the previous month.

7.6 Generally, data in relation to the Consumer Section and the Rural Banking Section receive more attention, both at the Executive Level and the Management level. Particulars such as the total turnover, wholesale and retail trade, purchases, purchasing expenses, turnover, rate of stock turnover, gross profit and the net profit appearing in this document are essential for making vital management decisions. Besides, the parameters that can be developed through information in this form indicate the positive or negative trends of operations enabling the society to make corrective measures in case of any poor performance.

## **8. Management control through outside Agencies**

8.1 What has been explained so far is the flow of information and in-built management systems within the society. In addition there are several agencies which too keep a watchful eye on the performance of the society. They are :

- Department of Cooperative Development;
- Sri Lanka Institute of Cooperative Management.

8.2 The Department of Cooperative Development develops its management control system both through direct information and indirect information designed from the discharging of administrative and statutory functions. The supervisory and development work of the Department conducted by the officials in respect of major areas of activities such as agriculture, trade, rural banking, audit, investigation, management, education, etc. reveals information which in turn lead to developing specific checks and control systems and downward inflow of information to the Society.

8.3 The Form 28 which supplies all the information to the management of the society play an equally important role in providing the same information to the Department of Cooperative Development.

8.4 In addition to micro level analysis done at the MPCSS level in regard to operational performances through "Form 28", the Department itself has worked out a system of monitoring, based on a comprehensive analysis of data in the "Form 28". At the macro level what is being done is a deeper analysis of data with a view to finding out areas where shortcomings have been highlighted and remedial action is required. These findings are communicated to the society through the officer in charge of the society which in turn is advised to monitor the progress eventually.

8.5 The audit, investigation too reveal facts and information which are presented to the management with the recommendation of the Department. This too constitute an important information and control system both to the Department as well as to the Society.

## **9. Sri Lanka Institute of Cooperative Management**

9.1 To improve the efficiency required for continued growth of the MPCSSs, the Department has recently introduced an effective system of monitoring and evaluating the performances through involvement of the

Sri Lanka Institute of Cooperative Management (SLICM). The task undertaken by the SLICM is to improve business efficiency by monitoring the performance of the MPCs in a more positive and systematic manner. The mechanism developed at the SLICM is a computerised management information system, which is a monthly performance monitoring system based on particulars of Form 28. Among several techniques devised the most significant ones are the "Five year review" and the "Monthly Performance Monitoring System".

9.2 The Five Year Review contains a systematic review of performance based on the audited accounts of the society. This gives a summary of operational results and financial status for 5 years in a single sheet. While this review assists the management in ascertaining its progress or decline during the past 5 years, it also facilitates a comparison of performance of all the societies in a district. The "Monthly Performance Monitoring System" is being prepared quarterly for the MPCs which are assisted under a special rehabilitation programme. The analysis of variances of the expenses, sales and surpluses of every section for the preceding 18 months and performance indicators shown in the report are considered to be the most useful criteria for assessing the financial viability of the society. These indicators are shown in items 29 to 43 in the Form. To facilitate assessment the SLICM has developed a set of performance standards from the following indicators :-

- a) Current ratio;
- b) Leakages as a percentage of sales;
- c) Loan repayment capacity;
- d) Net profit to the assets employed;
- e) Purchasing expenses to sales;
- f) Sales per consumer per month;
- g) Sales per employee;
- h) Gross profit percentage on sales.

9.3 As this Form contains data for 18 months the society can identify the significant variations and reasons for such variations and also ascertain whether the society is achieving the targets and standards expected through measuring performance by using the indicators.

## **10. Management of a Coconut Producers Cooperative Society**

10.1 The structure and the management of a Coconut Producers' Cooperative is not as complex as that of a Multi-Purpose Cooperative Society. This is principally due to the fact that it deals only with one product.

The following branches are functioning under this society :-

1. General Office;
2. Personnel Management Branch;
3. Accounts Branch;
4. Transport Branch;
5. Production Branch;
6. Estate Division.

10.2 The General Office is responsible for the overall management of the cooperative and the General Manager is incharge of this office. Matters dealing with recruitment, disciplinary control, etc. are assigned to the Personnel Branch. The accounts branch is well equipped with a number of officials and the officer incharge is the Accountant who is assisted by several Assistant Accountants. Their functions are keeping accounts, payments, receipts, preparation of accounts and reports to the Board of Directors, etc. The Accountant in charge is responsible for the overall Financial Management.

10.3 The transport branch is under the Transport Manager and its principal responsibility is the management of the transport fleet and its operational activities.

10.4 The production branch is the most important units where all activities connected with the processing of coconut products are undertaken. The Production Manager or the Mill Manager will be in overall supervision of this branch assisted by Laboratory Technicians, Electrical Foreman, Maintenance Officers, etc. There are separate sub-units in charge of various aspects of processing such as desiccated coconut, coconut oil, copra, by-products, charcoal, etc.

10.5 In addition to these activities there is a retail shop managed by the cooperative mainly to help the members to obtain their daily needs and a fertilizer stores where the fertilizer is issued to the members on credit as well as on cash.

10.6 The operational level of this society consists of clerks, drivers, labourers, cleaners, peons, store keepers, watchers, carpenters, etc.

10.7 As in the case of a Multi-Purpose Cooperative Society the General Manager is in overall charge of the entire administrative structure and is answerable to the President and the Board of Directors.

10.8 The internal management system is controlled by several forms that are used for receiving and issuing of products as well as the movement of products from one unit to the other. There are 16 forms used which are explained below :-

1. Receipt issued by the society when coconut is accepted from members;
2. Receipt issued by the society when husked coconut is accepted;
3. Note issued to the owner of the estate asking him to allow the huskers to enter the estate;
4. Instructions to transport coconut;
5. The receipt issued to the members indicating the amount paid for the coconuts and the deductions; made for the loans and advances obtained early;
6. Cash receipt indicating the amount paid to the society;
7. Voucher to be prepared when funds are released and cash is paid;
8. Requisition for advances by members;
9. Finished goods note;
10. Transfer of equipment, material to other branches;
11. Dispatch note to other places;
12. Dispatch for desiccated coconut;
13. Running chart;
14. Issues from the main stores to the retail shops;
15. Daily calculation of the value of coconut based on kernel weight;
16. Monthly management summary to be submitted to the Board of Management.

10.9 As stated above these forms are utilized for management controls in regard to the outflow and inflow of goods, services and movement of cash, etc. The most important document like in the case of F.28 of the MPCs is the management summary submitted monthly to the President.

This is a financial statement covering all branches and activities which is useful for policy decisions to be taken at the level of the President and the Board of Directors.



# COOPERATIVE SYSTEM

## 1. Cooperative Law

1.1 There are three basic elements in the Cooperative Law, namely Cooperative Societies Law, the Rules framed under the Law and the By-Laws. From the early period of cooperative development to the present day there has been 15 Ordinances and Amending Acts. The Important enactments are given below :

- Cooperative Credit Societies Ordinance, 1911;
- Cooperative Societies Ordinance 1921;
- Cooperative Societies Ordinance 1936;
- Amendment Act 1939;
- Amendment Act 1952;
- Consolidation of the Law 1956;
- Amendment Act 1958;
- Amendment Act 1964;
- Special Provisions Act 1970;
- Cooperative Societies Law 1972;
- Amendment Act 1978;
- Amendment Act 1980;
- Amendment Act 1983.

1.2 The first legislation on cooperatives was passed in 1911. It was based on the recommendation made by the Agricultural Banks Committee of 1910 and was modelled on the Indian Cooperative Ordinance of 1904. The objectives of this Ordinance were to encourage thrift, self-help and cooperation among agriculturalists, artisans and persons of limited means. One significant feature of the Ordinance is the lack of reference to cooperative elements and principles. However, it provided for the appointment of a Registrar, registration of Credit Societies, laying down of eligibility criteria of members, conditions of disbursement of credit. Obligations of the members, authority of the Registrar to cancel the registration of a Society, authority to engage in audit inspection, provision to distribute profits with certain limits, provision to make rules to settle disputes, etc.

1.3 The Ordinance of 1921 sought to improve on the previous legislation and also to consolidate and amend the existing provisions on establishment and control of cooperative societies. Provision has been made for the registration of non-credit societies as well. The previous Ordinance provided for the registration of only the Credit Societies. The power conferred on the Registrar in regard to amendment to the by-laws,

cancellation of registration have been further elucidated. Provision has been made for the investment of capital by the society and the Registrar's authority to audit and inspect has been further widened.

1.4 The Cooperative Societies Ordinance of 1936 brought about more refinement and endeavoured to fill several missing gaps. This piece of legislation reflected the thinking of the farmer cooperator. While discretionary powers were given to the Registrar in regard to the registration of societies, and the creation of By-Laws, the Board of Management was provided with legal avenues of appealing against the decision of the Registrar. Legal recognition has been made in the Ordinance for the transactions with the minors.

1.5 The Amendment Act of 1939 marks a significant development in the evolution of the Cooperative Law. The World War II brought forward the cooperative societies as outlets of food distribution on rationed basis. In this process several drawbacks were identified particularly in the operational areas. In order to rectify these defects the Amendment Act of 1939 was promulgated. The main features of this Act were, the widening of the scope of audit and inspection, compulsory sales of produce to the Cooperative Societies, compulsory acquisition of assets by the societies, dissolution of the Committee by the Registrar and appointment of a Board of Management, and recovery of the debts or monies to the society through the Registrar, compulsion of the Banks to produce information, etc. It should be noted that the Registrar's powers were greatly enhanced by this Amendment Act.

1.6 The Amendment Act of 1964 enlarged the powers of the Liquidator under liquidation proceedings and new provisions were included concerning awards.

1.7 The Cooperative Societies Law of 1972 marks a new era in the evolution of the Cooperative Movement. All legal provisions enacted from 1911 onwards were consolidated in 1972. The significant features of the Law are the enshrining of cooperative principles and provision of clear definitions of cooperative societies in the law, amalgamation and division of societies, undertake inquiry in addition to audit and inspection, etc.

1.8 This law conferred a number of privileges on registered societies. Apart from exemption from stamp duties and registration fees, the law reserves the use of the word "co-operative" for registered cooperative societies. Other privileges under the law include the power to enforce liquidated damages against a member on his failure to dispose of agricul-

tural produce through the society and the power to require non-members in certain circumstances to sell their produce through a registered society. Cooperative societies have also been given certain privileges in regard to right over crops, agricultural produce belonging to members - the claim of the society taking precedence over that of a landlord. Apart from several other routine privileges, the law stipulates that, where any land or building is required for any purpose connected with the object of a registered society, that purpose shall be deemed to be a public purpose and that land or building may be acquired by the Government for that society.

1.9 Amendment Act of 1983 was again an attempt to provide a legal base for consequential provisions arising from judicial determinations. Certain powers of the Registrar were circumscribed while certain additional powers were conferred. Special provisions were incorporated where the Registrar could suspend the officials of a society or to remove such suspensions, provision to appoint interim Boards of Directors by the Registrar and reducing it more difficult for criminal malpractices in cooperative societies to go unpunished.

## **2. Main Features of the existing Cooperative Societies Law No. 5 of 1972**

2.1 It is necessary to examine in detail the main features of the Law. This serves as the common cooperative law which provides the legal base for the various types of cooperatives that are in operation. A general cooperative law for all types of cooperatives has conveniently avoided the complexity and the multiplicity of cooperative laws, which has paved the way for the development of a common outlook on cooperative ideology.

2.2 The main cooperative law that is in force provides for the development of cooperative societies and to consolidate and amend the subsidiary laws relating to the constitution and control of Cooperative Societies. The main focus of this law is the Registration of Societies by the Registrar. A society may be registered, if it is:

- a) A society which has as its object the promotion of the economic, social or cultural interests, of its members in accordance with cooperative principles, or
- b) A society established with the object of facilitating the operations of a society referred to in paragraph (a), or
- c) A society consisting of registered societies as members established for the purpose of providing cooperative education and training, advisory services to the cooperative societies and other services for the promotion

of the Cooperative Movement in Sri Lanka, or

d) A society consisting of registered societies as members established for the purpose of planning, co-ordinating, and facilitating the activities of such cooperative societies in Sri Lanka or any part thereof as are engaged in marketing, industry, agriculture, fisheries or in such other activity as may be approved by the Registrar.

2.3 Once registered, the Society has the power to formulate or amend its By-laws. However, all amendments should receive prior approval of the Registrar who will ensure that the By-laws are not contrary to the Cooperative Law.

2.4 Amalgamation, division and transfer of assets and liabilities of the registered societies have been provided in the law subject to the proviso that it should be done with the approval of the Registrar and by a resolution passed by 2/3rd majority of the members present for voting. Rights and liabilities of the members as well as the duties of a registered society are explained in the law.

2.5 Societies are bodies corporate. A noteworthy feature of the Law is the specific provision available for the creation of by-laws dealing with disposal of agricultural produce. Authority has been vested in the Minister to direct compulsory sale of produce through a registered society in certain cases. A registered society may acquire by purchase, gift, or otherwise and take on lease, lands, buildings or other movable or immovable property, or sell, mortgage, lease, exchange or otherwise dispose of lands, buildings or other movable or immovable property for any purpose connected with its objects. However, the prior approval of the Registrar should be obtained before any such transactions.

2.6 Provision has also been made regarding the disposal of profits where 25% of the net profit should be transferred to the Reserve Fund of the Society, contribute a certain portion to the Cooperative Fund. The balance can be used for payment of dividends to the members, payment of rebates, contribution to various funds, payment of bonus, and a contribution of 10% to a Common Fund for expenditure on any social cultural or recreational purposes.

2.7 One of the important areas of intervention of the Registrar in the affairs of the society is in the field of audit, inspection and investigations, for which specific provision has been made in the law. The Registrar can, on his own, or on a request made by not less than 1/3 of the members cause audit, inspection or investigations to be held and the results will be com-

municated to the society. If the Registrar is of the view that the Committee is not performing its duties properly after considering the views of the committee on this matter shall dissolve the committee and appoint a Board to manage its affairs. In addition to the dissolution of the committee Registrar has the authority to even cancel the Registration of the society.

2.8 Once a society loses its registration it has to be liquidated and the law provides the manner in which the society should be liquidated, the powers and functions of the liquidator, and the Registrar's supervisory role over the liquidator. Specific reference and legal provision has been made to deal with all disputes, payments of awards by the arbitrator, recovery of funds due to the government.

2.9 It will be observed therefore that the Cooperative Societies Law of 1972 is the basic law governing the affairs of the societies which was in fact a culmination of a process of evolution clarifying issues, widening the scope, and filling gaps on legal interpretations of the earlier laws etc.

### **3. Rules and By-Laws**

3.1 In addition to the Cooperative Law, the rules promulgated under the law and the by-laws of the society also provide the legal base for the society. Rules are framed by the Minister in charge of the subject. By-laws are framed and passed by the society subject to the approval of the Registrar, who will ensure that those by-laws do not contravene the provisions of the main law. Generally the rules specify and prescribe conditions, limitations, procedures, modes, regulations, powers to be exercised and duties to be performed, matters on which by-laws can be framed, how books and accounts should be kept, periodical publications by the society, returns to be submitted to the Registrar, maintenance of funds such as Reserve Fund, manners in which state funds could be obtained, maintenance of surplus funds etc.

3.2 By-laws on the other hand provide procedures for the conduct of the affairs of the society, the objectives, composition of membership, eligibility criteria, voting, appointments to the committee, Board of Directors, meetings of the committees, and General Bodies, record keeping, transactions of business, distribution of profits, etc.

### **4. Administrative Support System**

4.1 The Cooperative system is essentially a peoples movement. An administrative support system has also been established to provide strength

to the movement as well as to carry out certain statutory functions. The administrative support is provided by three agencies, namely, the Department of Cooperative Development, the Cooperative Employees Commission and the Institute of Cooperative Management.

#### *4.2 Department of Cooperative Development :*

The Cooperative Societies Ordinance of 1911 provided for the creation of an Institute called the Registrar to perform certain functions such as Registration audit, etc. The Registrar was then only a part-time official and the Director of Agriculture performed the functions of the Registrar of Cooperative Societies in the early phase. The Cooperative Department then was a sub-department of the Agriculture Department. During the World War II, with the expansion of Cooperative Societies the cadre of officials particularly in the category of the Inspectors expanded rapidly. The most significant development took place in 1945 when a separate Department called Department of Cooperative Development was created and placed under a Commissioner who was in charge of planning and development. During 1950's a separate post of Assistant Commissioner of Cooperative Development (Industries and Fisheries) was created at the Head Office for the development of these sectors. More inspectors for audit and inspection were recruited. A very significant development during this period was the establishment of a separate Extension Division in the School of Cooperation to take charge of the education programmes on Cooperative Development besides the training of departmental staff. In 1960's a separate officer of the rank of Assistant Commissioner was appointed to be responsible for education and training and several staff categories were created for audit and inspection. Similarly more officers were appointed to strengthen the categories of inspectors in the field and ranges.

#### *4.3 Existing Structure of the Department of Cooperative Development:*

The functions of the Department of Cooperative Development is given below:

1. Organization and registration of cooperative societies.
2. Audit and Supervision of Cooperatives and the statutory functions connected therewith, such as :
  - a) Annual audit of Cooperative Societies;
  - b) Fixing of maximum credit limit of societies;

- c) Approval and registration of by-laws and amendments and interpretation of by-laws;
- d) Nomination of committee members to cooperatives;
- e) Settlement of disputes, arbitration and hearing of Appeals under sections 58 and 59;
- f) Inquiries under section 46(1) and summoning and holding of general meetings under Rule 18;
- g) Cancellation of registration of societies;
- h) Liquidation;
- i) Giving of advice and guiding the management of societies according to the Cooperative Ordinance, Rules and By-Laws;
- j) Removal of employees and committee members of cooperative societies.

### 3. Development Work:

- a) Assisting in the formation of cooperative societies;
- b) Giving of advice and guiding the societies in their day-to-day management;
- c) Implementation of Government Policy with reference to:
  - i) Agricultural development;
  - ii) Fishing activities;
  - iii) Industrial activities;
  - iv) Consumer supply and distribution;
  - v) Labour and other services; and
  - vi) Financing of agricultural, industrial and Fisheries development programmes.
- d) Liaison with other Government Departments (particularly Agriculture, Agrarian Services, Marketing, Food, Fisheries and Small Industries) and Corporations and Banks (People's Bank, CWE, Fertilizer and other state Corporations);
- e) Extension of banking through cooperatives by establishment of Rural Banks, etc. with the assistance of the People's Bank;
- f) Liaison with government agents and district heads of departments and with other officers at divisional and village level;
- g) Extension, education, publicity and propaganda;
- h) Training of departmental staff as well as cooperative employees;
- i) Supporting the Cooperative Movement.

#### 4. Administrative work :

- a) Recruitment and training of staff;
- b) Transfers and promotions of staff and other establishment matters;
- c) Administration of the Cooperative Fund;
- d) Collection and publication of statistical data and the issue of the Annual Administration Report.

These functions have been categorized into six sectors under the Commissioner of Cooperative Development and are being operated under six Deputy Commissioners:

1. Administration and Finance;
2. Legal, Industrial and Fisheries;
3. Agriculture, Banks & Credit;
4. Education, Training, Management and Statistics;
5. Audit, Investigation and Liquidation;
6. Consumer Societies and rehabilitation of societies.

#### 4.4 *Audit, Investigation and Liquidation*

This is a statutory obligation of the Department in terms of sections 44, 46, 47, 49 & 52 of the Cooperative Law. The supervision of the cooperative societies is being done by 28 Assistant Commissioners of Cooperative Development. Out of a target of 8,579, 6,947 audits have been completed during 1988. A separate unit has been established to handle all investigation functions of the cooperative societies which is one of the statutory functions. The type of duties usually performed are studying investigation report, drafting charge sheets, etc. Therefore appropriate action such as removal of the Committee, Board of Directors, dismissal of employees are being taken. Further, legal advice is also being provided by the officials in regard to these matters. Once the registration is cancelled liquidation of the societies is another area of intervention by the Department. In 1988 there were 1,042 societies under liquidation out of which 229 were wound up.

#### 4.5 *Arbitration*

Arbitration under section 58 of the Cooperative Law and Rule 49 have to be dealt with by the Registrar. Some of these have to be enforced through the Courts. In 1988 there were 132,637 cases of arbitration and 41,116 applications for enforcement which had to be disposed of by the Department.



#### 4.6 *Education, Training and Extension*

The entire training and extension functions of the cooperative sector are entrusted to the officials of the Department and to the School of Cooperation which handles regular training courses. The National Cooperative Council too is engaged in the training and the extension activities of the movement. These training cover both managerial aspects as well as developing concepts. Further, it is also the obligation of the Department to prepare officials for certain examinations which are administrative requirements.

#### 4.7 *Management*

Advice and guidance relating to the management aspects is also being provided by the departmental officials. These include general management, special areas of managerial skill development, man-power studies and advice in mobilization of man-power and the determination of cadres based on the trading and development activities of the societies.

### 5. **Cooperative Employees Commission**

A Cooperative Employees Commission has been established under an Act of Parliament in 1972. This Act deals mainly with the administrative and establishment work of the employees of the Cooperative Societies.

The Commission has the following powers:-

- a) to determine all matters relating to methods of recruitment to, and conditions of employment of employees of cooperative societies, and the principles to be followed by such societies in making appointments and in making promotions from one post in a cooperative society to another post in the same society;
- b) to conduct examinations for recruitment as employees of cooperative societies or to appoint boards of examiners for the purpose of conducting such examinations and to charge fees from candidates presenting themselves for examinations;
- c) to determine the qualifications necessary for appointment to any such post, to fix the scales of salaries to be attached to any such post or posts in any class or grade, to revise or adjust such scales of salaries from time to time, in consultation with the Commissioner and to establish such

consultative machinery as the Commission may deem necessary to assist it in determining the remuneration and conditions of service of cooperative employees;

d) to require cooperative societies to pay salaries in accordance with the salary scales fixed by the Commission for any post or posts in any class or grade;

e) to determine the procedure or procedures to be followed by any cooperative society in exercising its rights of disciplinary action against its employees, to call upon any cooperative society to complete disciplinary inquiries against its employees within a time stipulated by the Commission, and to hear appeals arising out of any disciplinary orders made by any cooperative society;

f) to call upon any cooperative society to keep the prescribed records relating to employees of that society;

g) to call upon any cooperative society to furnish before a specified date such files, other documents or information as the Commission may require in respect of any employee of that society;

h) to nominate a panel or panels of officers to make such inquiries as are necessary on appeals that are referred by the Commission to such panel or panels and to report thereon to the Commission;

i) to require any cooperative society to carry out such instructions, including instructions relating to reinstatement, as may be given by the Commission in regard to any employee of such society, where the conduct of the employee had appealed to the Commission against the decision of the society;

j) to determine the general principles in accordance with which gratuity, or other benefits may be granted to employees on the termination of their services.

k) to advise the Minister in consultation with the Commissioner, in regard to the exemption of any cooperative society or class of cooperative societies from the operation of this Act;

l) to exercise such other powers in relation to cooperative societies and their employees as may be vested in the Commission by Order made by the Minister and published in the Gazette.

The Commission shall consist of three members appointed by the Minister one of whom shall be the Chairman, and the Secretary of the Commission will be an officer from the Sri Lanka Administrative Service.

## **6. Sri Lanka Institute of Cooperative Management**

6.1 The Sri Lanka Institute of Cooperative Management has also been established in order to provide the managerial expertise to the Cooperative Movement. The objectives of this Institute are :-

- a) to render management consultation to cooperative societies;
- b) to assist and render such consultation services to other organizations in matters affecting the cooperative sector;
- c) to render follow up services to guide the implementation of recommendations arising from such services as have been agreed to and accepted by the cooperative societies;
- d) to render advice and guidance on the feasibility and operation of agricultural, industrial, commercial and other ventures of cooperative societies;
- e) to develop such training programmes as the Institute's consultancy experience may show to be necessary to develop the skills required for efficient management of cooperative societies;
- f) to render assistance to the cooperative sector and in particular to the cooperative education and training institutions at national and district levels in order to improve their programmes of management training;
- g) to produce and issue teaching aids, such as cases, manuals, model job descriptions and other management communication documents;
- h) to sponsor and hold conferences and seminars, and publish books, journals and magazines, in connection with cooperative management and training;
- i) to initiate and undertake research, surveys and studies on aspects of cooperative management and training either by itself or in association with cooperative societies and other institutions in Sri Lanka or abroad;
- j) to collect and disseminate information on cooperative management

and performances; and

k) to disseminate information on the functions and activities of the Institute to the public and relevant institutions.

The institute shall have a Board of Directors consisting of :-

a) five directors appointed by the Minister from among those who have experience in cooperative matters, administration, banking and finance, agriculture, industry, marketing and distribution; and

b) the following ex-officio members, namely :-

(i) The President of National Cooperative Council of Sri Lanka; and

(ii) The Commissioner of Cooperative Development.

The Minister shall appoint one of the members to be the Chairman of the Board. A General Manager will be appointed who will function as the Chief Administrative Officer.

6.1 This Institute has been primarily considered with monitoring the movement of state aided cooperative societies and reporting to the Committee which decides on the release of funds in regard to their performance. A very close supervision is kept in order to see that these societies are rehabilitated properly. There are 69 societies where this Institute examines the monthly business, turnover, profit and loss and repayment of state funds.

6.2 In addition consultancy services and training programmes are also being done by the institute. Having examined the performance of the societies the main problems are identified and in consultation with the other agencies training programmes are being conducted particularly concerning the management improvement. Similarly on the requests of the societies specialized consultancy services are also provided.

## **7. Financial System**

7.1 *Flow for funds to the cooperative societies are three fold:-*

- i) internally generated funds;
- ii) loan and credit facilities from the Banks;
- iii) State funds from Government Departments and institutions.

## *7.2 Internally Generated Funds*

These funds are basically from the share capital of the society. Every member is expected to contribute a stipulated amount as his share when he becomes a member. The share value differs from society to society. The share value is fixed by the members and stipulated in the by-laws of the society. Usually this amount varies from Re. 1/- to Rs. 10/- in the case of MPCs and it is much higher in respect of single purpose agricultural cooperatives such as Milk Cooperatives and other types of Cooperatives.

The funds flow from the business of the societies as well. Societies undertake a wide range of trading activities as well as consumer services, supply of input such as seed materials, fertilizer, agro-chemicals, etc. The profits from these services are treated as funds of the cooperatives.

The interest accrued from the deposits is also an additional source of income. Usually the societies keep in fixed deposits large sums of money in the Commercial Banks and the interest accrued is considerable.

## *7.3 External Funding Sources*

Bank loans and overdrafts obtained from the Commercial Banks constitute the main source of external funding of the cooperatives. It covers a wide range of activities and the rates of interest vary depending on the loan.

Departments and agencies of the Government too provide seasonal and regular credit facilities which also augment the capital of the societies. The Food Commissioner who is principally involved in the distribution of essential items of food such as rice, sugar, flour has been providing credit facilities. Similarly the Commissioner, Poor Relief also provides special financial assistance as a distribution support to the societies. The Cooperative Wholesale Establishment, on the same lines, provides 45 day credit to sell their products. Salu Sala, a Trading Corporation in textiles too provides 45 day credit particularly during festival periods when the sales are high. The Fertilizer Corporation, the Fisheries Ministry too provides funds for specified activities to be undertaken by the societies.

## *7.4 Special Funding Arrangements*

There are special funding arrangements to back-up cooperatives. The Cooperative Development Fund administered by the Treasury is one

such specialized arrangement to rehabilitate financially weak societies. Rs. 100 million has been set apart as the CDF from where the Business Turnover Tax is being paid and the balance is utilized for financial support to the weak societies. A Committee of officials representing all related agencies look very closely at the request for funds. Certain pre-conditions are stipulated to improve management capabilities of these weak societies, the fulfilment of which only qualifies the societies to obtain loans. This Committee which meets once a month monitors the recoveries from the societies as well.

The Cooperative Fund too performs a similar function. This is a statutory fund where 10% of the profit of all societies after audit is credited. Financially weak and non-profit making societies contribute a nominal fee of Rs. 10/- per annum. Societies which require funds apply to the custodian of the Fund, the Registrar of Cooperative Societies for assistance and funds are released on a low interest and on soft terms.

The Surplus Fund is another statutory fund administered by the Registrar from whom societies obtain financial support on request. When a society is identified for liquidation and before the liquidation proceedings commence and before liabilities are settled the income is credited to a separate fund. Once the liquidation process is complete and liabilities as stipulated in rules are settled, the balance money is credited to the Surplus Fund. As a rule the societies of the area where the liquidated society is situated are the recipients of these funds. Usually financial support is provided to back-up any development programme commenced by these societies on terms and conditions stipulated by the Commissioner.

### *7.5 Taxes*

Taxes imposed on any trading agency is applicable to the Cooperative Societies as well. 1% of Business Turnover Tax is levied on sales. In addition 10% is recovered from the profits as income tax. The Business Turnover Tax has now been replaced by a withholding tax of 1% at the point of purchases. Monthly, tri-monthly returns are forwarded to the Department of Inland Revenue providing the details of revenue and payment of taxes by the societies.

A special privilege that has been extended, as a temporary measure, is the reimbursement of the Business Turnover Tax payments by the Government to the societies. This has been specifically arranged to relieve the societies from the financial strain.

## **1. COOPERATIVE EDUCATION**

1.1 The basic unit in the Cooperative Movement is the Member. Therefore, the entire Cooperative Educational System is primarily focussed and directed towards the member education and member involvement in the Cooperative Movement. It has been increasingly felt that with the gradual growth and expansion of Multi-Purpose Cooperative Societies and resultant increase of the trading activities the member involvement has receded and distanced. Consequently, the basic concepts such as cooperation, mutual trust and voluntary participation were overtaken by trading and business considerations. This situation was further accentuated when the most popular cooperative societies which have a large membership gradually took the form of state-trading agencies.

1.2 Cooperative member participation therefore should be brought to the forefront if the cooperative movement is to be sustained and further developed. This can only be done by widening the scope of cooperative education where the central theme should be the member education. In order to develop cooperative system as a movement in the society it should transform itself into a social and economic force capable of entering the lives of the people and stimulating them into active, and vibrant participatory membership. The Cooperative Education should therefore reflect the aspirations and inclinations of the members.

### **2. Cooperative Educational Institutes**

2.1 There are three agencies principally responsible for the Cooperative education, namely:

- a) National Cooperative Council of Sri Lanka;
- b) The Department of Cooperative Development and the School of Cooperation;
- c) Sri Lanka Institute of Cooperative Management.

2.2 Besides these there are three Apex level cooperatives which are engaged in providing cooperative education mainly concerned with their own areas of activities:-

1. The Federation of Thrift and Credit Cooperative Societies;
2. National Youth Services Cooperative Societies Union (NYSCSU);
3. Fisheries Cooperative Federation of Sri Lanka.

2.3 The respective cooperative societies on their own and in the limited field available to them too provide training through their Education and Member Relation Officers.

### **3. National Cooperative Council**

3.1 This is the Apex organization constituted by elected representatives of the District Level Councils. A President and a Board of Directors manage the affairs of this apex society, and it is principally concerned with all activities of the Cooperative Movement. Training therefore takes a prominent place in their affairs.

3.2 The National Cooperative Council (NCC) focuses attention mainly on the member education. The member groups are basically:

- Branch committee members;
- Presidents and the Directors;
- Women;
- Youths.

These four categories form the target groups of cooperative education provided by the NCC.

3.3 The areas of training fundamentally cover the basic concepts of cooperation but reflects specialities in respect of the particular target group. For Branch Committee members and the Presidents and Directors the emphasis will be on cooperation, member participation, and leadership. In regard to women's groups, apart from training in leadership, training is provided on consumer education, primary health and child care, training on income generating activities. The youth group particularly receives exposure to leadership and cooperative training.

3.4 The education of employees too occupy an important place in the training activities of the N.C.C. These employees fall into two categories:-

- Employees of the National Cooperative Council;
- Cooperative employees,

Generally the N.C.C. employees are provided with training in leadership and they are specifically identified for training as trainers. The cooperative employees on the other hand receive specialized training on :-

- personnel management;



- member relations and services.

#### **4. Department of Cooperative Development**

4.1 The cooperative education provided by the Department of Cooperative Development is essentially aimed at improving the management capabilities of the employees. The target groups are:-

- General Manager;
- Accountant;
- District Secretaries of the National Cooperative Council;
- Education Officers of the Department and the Cooperative Societies;
- Legal representatives of the societies;
- Personnel Managers;
- Consumer Managers.

4.2 The areas of training are :-

- Financial Management;
- Planning and Budgeting;
- General Management;
- Disciplinary procedures;
- Identification of training needs;
- Training methodology and programming;
- Cooperative Law and arbitration procedures;
- Personnel Management;
- Purchasing and stock control;
- Pricing.

These training programmes are conducted by the Department in close collaboration with the School of Cooperation.

#### **5. School of Cooperation**

5.1 The School of Cooperation was established in 1943. It has a Principal and 6 permanent lecturers and 8 inspector lecturers. The field covered by these lecturers are :-

- Cooperation;
- General Law and Cooperative Law;
- Economics;
- Sociology;

- Communication;
- Accountancy;
- Auditing;
- Management;
- English Language;
- Leadership Training.

5.2 Average annual intake of students to the School is 825. There are regular courses of training provided by the School as well as ad-hoc training based on the needs identified from time to time and on the requests made by various groups, agencies, and cooperative societies.

5.3 The main function of the School of Cooperation is the identification of training needs of the officers of the Department of Cooperative Development and planning and executing such programmes. This School too caters to the managerial levels of the societies where their training needs are identified and special courses of training are provided. Two important courses arranged by the School of Cooperation is the 1st and 2nd examinations for the new recruits to the Cooperative Inspectors Grade which is an administrative requirement. Further workshops, Seminars are being conducted for the senior Departmental Cooperative Inspectors at the School.

5.4 Several Departments and Agencies are also involved in the training programmes concerning the cooperative movement. All these agencies collaborate with the School of Cooperation to arrange training programmes. The type of courses, workshops vary depending on the identified needs of the target groups. For the benefit of the managerial level cooperative employees training courses are conducted each accommodating about 20 - 30 participants. The main area of training are :-

- personnel management;
- manpower assessment;
- audit development;
- cost management;
- transport management;
- retail sales;
- investigation;
- leadership and decision making;
- employer-employee relationship;
- Cooperative Law and subsidiary legislation.

5.5 In addition to the above training courses, several workshops and seminars have been conducted by the School of Cooperation. These include :-

- work study training;
- cooperative thrift and credit;
- rural banking;
- production cooperatives;
- milk cooperatives;
- livestock developments;
- farm projects;
- project formulation;
- project implementation;
- audit development;
- financial management;
- arbitration.

## **6. Sri Lanka Institute of Cooperative Management**

6.1 The Sri Lanka Institute of Cooperative Management provides specialized training on Management and Skill development. The target groups are employees of the cooperatives who are at the management and decision making levels. The areas of training are:-

- Management information system;
- Rehabilitation of MPCs;
- Self-services shops - management improvement;
- Marketing Management;
- Packaging of goods;
- Management Accounting;
- Incentive schemes;
- Display of goods;
- Salesmanship;
- Re-ordering;
- Business Card System.

## **7. Cooperative Education and Training by Apex Societies**

7.1 The target groups are both members as well as employees and the specific areas of training are mostly concerning the activities of the particular apex society. For instance, the Federation of the Thrift & Credit Cooperative Societies is primarily concerned with all aspects of thrift, credit, supervision of credit, disbursement, recoveries, rural savings and

savings mobilization. The National Youth Services Cooperative Union focuses on project preparation, implementation and income generating projects at the rural level. Hence the training and education undertaken by this agency is focussed mainly on youth so as to increase their involvement in the Cooperative Movement.

7.2 Both men and women are target groups in the training programmes conducted by the Fisheries Federation. The approach is more of developing projects and training on them various aspects of fishing and connected industries such as net weaving, boat repair and maintenance, processing of fish and saving mobilization etc.

## **8. Cooperative Education through Societies**

8.1 The societies allocate funds for cooperative education in their annual budget and the officer who is primarily in charge of the training and education is the Education and Member Relation Officer. The areas of education in this instance is more of developing member relations and providing awareness on member participation in cooperatives. The bottom level training is undertaken by these officers at the Society level.

8.2 The Education Committee at the District Level consisting of the Assistant Commissioner of Cooperative Development, the District Secretary of the National Cooperative Council and the societies provide the guidance and required coordination to implement these programmes.

## **9. Training of Trainers**

9.1 The training is not confined to the agencies referred to above. The difficulty in conducting all training programmes centrally without decentralizing it to appropriate levels has been recognized. The problem of logistics and the increasing difficulties of transport has further strengthened the concept that decentralized training will be more effective and convenient. Therefore steps have now been taken to develop a nucleus of trained cadres at the District level which would impart training in turn to other field level officers of both managerial grades as well as the supervisory grades. The training of trainers has therefore been an important area of cooperative education.

9.2 In the administrative structure, the District occupies the most important operational unit. At this level Departments and Agencies are represented by their officials. The Department of Cooperative Development as well as the National Cooperative Council work through the District

level representatives, and at this level several officials are identified for training as trainers. They are subject to intensive training both in regard to the subject matter as well as in the modern techniques of training and mass education in order to equip them as effective master trainers. They are expected to identify the actual training needs of the people as well as officials and prepare suitable programmes. This programme is now under-way and the master trainer programme will be expanded.

9.3 The training programmes and the workshops held several years continuously carried the weakness of being routine, and uniform. In order to venture out into other areas of training, the needs of training and the specific target groups should be correctly identified based on the field conditions. The approach to this has been rather unsatisfactory and often the same courses of training have been repeated. This has now been rectified but utilizing the diagnostic problem analysis method by which a group of officials will interact closely with a group of societies in order to identify both their strength as well as weakness. Common patterns and issues are then noted and specific training programmes are prepared which in effect provide some answers to the problem. The problem solving training based on actual field conditions have occupied a prominent place in the cooperative education system in Sri Lanka.

## **10. Coordination of Training Programmes**

10.1 The foregoing paragraphs would indicate the existence of several institutions of training and the multiplicity of agencies which supply inputs for training. Therefore, there exists an urgent necessity of coordinating the training programmes so that duplication could be avoided and the training programmes could be prepared and implemented by the most suitable agency, based on the assessment of the needs. A Standing Committee on Training and Education has been established in the Ministry where the representatives of all training agencies meet in order to agree on a schedule of training. Usually the training needs are identified based on the field experience and the field knowledge and at this meetings agreement is reached in regard to the major areas of training. Thereafter, based on the individual expertise of each agency the areas of training are separated. A composite training schedule is then prepared which will be implemented jointly by agencies concerned.

## **11. Weaknesses in the Cooperative Training & Education**

11.1 Several weaknesses are however observed in the entire cooperative education system which can be summarized as follows :

a) The interest displayed by the Boards of Directors and the Branch Committees concerning education and training is grossly insufficient. Further, their own concepts and understanding of the role of education in building healthy cooperative systems are both incorrect and out-dated.

b) The cooperative education has not yet been recognised and accepted as a management responsibility where the focus should be more of improving the awareness of both members as well as officials.

c) In most societies the officials of the management and executive grades have failed to accept the fact that the cooperative education is an important medium of cooperative development.

d) The inherent defects and the structural weaknesses of the training programmes.

e) Lack of adequate involvement of the members in education.

f) The education and training functions have not yet been properly organized as an important activity of the Cooperative Society.

g) Lack of members' involvement and the lethargy displayed by secondary training agencies in providing this input.

h) Inadequacy of financial support for a much wider educational coverage encompassing all important aspects of cooperative system.

11.2 What has been surfacing consistently is the lack of awareness and non-recognition of education as a managerial responsibility in management of the societies and in the budgetary allocations. It has been increasingly felt that the training programmes are more repetitive and does not portray the actual field realities and as such have failed to attract the individual attention and the full member participation at all levels. The mere instructions and lengthy discourses on concepts of cooperation does not interest the participants. It is largely dependant on availability of avenues through which benefits could be accrued to the members and the resultant feeling that education is in effect a medium of expanding the activity base of the societies. The member-education should gradually expand it's narrow confines to much wider range of subjects which should touch the lives of the members such as family health and nutrition, child welfare, economic base of the rural membership, youth and women affairs, etc.

## 1. BUSINESS ACTIVITIES

1.1 The Cooperative Societies are engaged in a wide range of business activities which can be divided into two main components namely :-

- i) Supplies and services;
- ii) Purchasing, Marketing and Processing.

### 2. Credit

2.1 Provision of credit was the earliest service that was rendered by these societies. The Credit Cooperatives during the early period had a limited role to play and had a restricted membership. However, with the expansion of the agricultural activities, the importance of providing credit increased.

2.2 From 1958 the MPCs were involved in credit disbursement which was administered by the Agrarian Services Department. During this period Cooperative Federation Bank supplied the funds but subsequently their assets were transferred to the People's Bank which took over the monopoly of rural agricultural lending. The new Agricultural Credit Scheme was inaugurated in 1967 where the Central Bank guaranteed 75% of the amount loaned to the societies, by the Commercial Banks. These funds were initially utilized by the societies to be loaned to the farmers for purchases of paddy and other field crops.

2.3 It would be seen that the repayment rate decreased substantially after 1978. The decision taken by the Government in 1978 to grant loans for paddy cultivation to all farmers irrespective of defaults provided a serious set-back in repayment rates. In 1977/78 Maha season an all time record amount of Rs. 328.8 million was granted for paddy cultivation but only 21.03 was repaid. The Central Bank was forced to withdraw the 75% guarantee under the circumstances and the Commercial Bank immediately shut the door to the farmer who have defaulted. The People's Bank alone has granted Rs. 1,740 million to the farmers upto 1986 as cultivation loans of which Rs. 746.9 million is overdue.

The information below will indicate this position.

Year	Amount Loaned (Rs. 000)	Amount paid back (Rs.000)	Overdue %
1974	109,057	58,559	46.03
1976	56,336	31,309	44.42
1978	328,851	69,154	78.97
1980	15,528	13,378	13.84
1982	11,932	8,380	29.76
1984	12,687	11,103	08.01
1986	42,560	33,534	21.20

2.4 The provision of cultivation loans through MPCs failed due to a variety of factors. Lending for agricultural activities was never supervised either by the People's Bank or the MPCs. The applicant's requirement or his capacity to repay were never looked into at the time of the granting of the loan. Further the Governments at the time of the granting of the loan. Further the Governments at the time of elections repeatedly promised that they would write-off the past over-due loans. This resulted in the feeling that the farmers need not worry too much regarding the repayment as there was likelihood of the amounts being written-off by the Government. This seriously affected the policy of rural agricultural lending through MPCs.

### 3. Thrift & Credit Cooperative Societies

3.1 The Thrift and Credit Cooperative Societies too are engaged in rural lending and in contrast to the MPCs and the People's Bank the amounts paid are low but recoveries are extremely high. The lending system covered a wide range of rural activities including agriculture.

3.2 There are several reasons for the success of rural lending through Thrift & Credit Cooperatives. Basically the society developed a new 'credit culture' where the borrowers needs were identified and capacity of repayment were assessed at the time of the granting of the loan. Usually the small farmer approached the society for a small amount and the decision regarding lending, interest rates and recovery procedure were entirely with the local Board of Directors. There were no hard and fast rules governing the lending schemes and the arrangements were flexible. The most important concept that was prevalent in lending through Thrift & Credit Cooperative Societies was that the farmer considered the funds



borrowed as “their money” and not “Government money”. The following shows the amount loaned and recovered by the Thrift and Credit Cooperative Societies.

Year	Loans granted (Rs. million)	Recoveries (Rs. Million)
1978	42.9	31.1
1979	43.5	43.4
1980	98.1	77.8
1981	66.6	73.6
1982	91.7	73.4
1983	120.4	106.8
1984	142.4	83.2
1985	173.6	109.2
1986	410.9	268.2
1987	408.2	298.1

#### 4. Credit through Cooperative Rural Banks

4.1 By the late 1960's<sup>1</sup> the Cooperative System as a whole could meet only a very limited part of credit requirements in the rural sector. The Survey on *Rural Indebtedness in Ceylon 1957* disclosed the gravity of this problem. According to the Survey 54 percent of the village families were in debt and average debt of a village family was Rs. 750/-. Total debt of the rural population was estimated at over Rs. 500 million at that time. The survey also revealed that out of this total debt only 4.1 percent was due to the Cooperative Societies; and only 2.6 percent and 1.1 percent respectively, were due to the Government and Commercial Banks. The remaining large majority (92 percent) of debt was due to non-institutional sources like professional money lenders, landlords, boutique keepers and traders.

4.2 The Rural Bank Scheme started by the People's Bank in 1964, through the Multi-Purpose Cooperative Societies after three years of the Bank's operation, was aimed at expanding banking facilities among the rural population and thereby intensifying economic activities in the rural sector. This was considered an essential step in the People's Bank's programme of mobilizing rural savings for rural credit through the Cooperative Movement. At a time when almost all the existing commercial banking services were outside the rural sector, the beginning of the Rural Bank Scheme, which was devoted to the development of the rural sector, was an innovation in the *country's banking system*. The only significant

institutional credit source was the village cooperative which provided short term credit facilities to a very limited level but at a lower interest. Only the Cooperative Credit Societies of limited liability helped the rural farmer by providing him institutional credit even to a limited extent.

4.3 Under the Rural Bank Scheme financial assistance were provided to the member for production purposes including agriculture, animal husbandry, cottage industry, debt redemption, trade consumption, electrification and other purposes including emergencies. Rural Banks also operated pawn broking from the beginning as agent of the People's Bank.

4.4 The Cooperative Rural Banks were expected to fulfil the following functions :-

1. Granting credit to the members of the MPCS for a wide variety of purposes, within the approved limits for each purpose;
2. Accepting deposits from members and non-members;
3. Provision of Pawn broking facilities to members and non-members;
5. Linking credit with marketing.

4.5 The rural Banks opened Savings Deposit accounts and Fixed Deposit accounts for both members and non-members. Members were encouraged to deposit in their account at least a part of the cash they received from selling their produce to the Society. Members were granted credit through their Savings Accounts but not directly.

4.6 The number of savings account holders in the Rural Banks increased to only 4,600 up to the end of 1971. There was a sudden increase in the number of savings account holders, going up from 28,600 at the end of 1969 to 49,900 at the end of 1970. Of this increase 54 percent occurred during the last quarter of 1970 due to the demonetization of the currency within this period. Following a similar trend saving deposits too increased from Rs. 703,000 at the end of 1966 to Rs. 17,188,000 at the end of 1971. During the fourth quarter of 1970 savings deposits nearly doubled from Rs. 8,255,000 to Rs. 16,109,000 due to both an increase in the number of savings accounts and also the average amount of deposits in savings accounts increasing as a result of the demonetization.

4.7 The number of loans and total amount of loans granted by the Rural Banks which stood at 2,897 and Rs. 2,029,000 at the end of 1967 increased

rapidly to 10,017 and Rs. 7,122,000 by the end of 1970. However, the increases in both these figures were very marginal in 1971 since a good part of the money withdrawn from savings accounts early in 1971 may have been used to fulfil their credit requirements, and therefore there was limited need to take more loans and advances. The number of advances and total amount of advances made on pawn broking also followed a similar trend over this initial period. The average size of an advance made on pawn broking ranged from Rs. 96 in 1967 to Rs. 114 in 1968, and was smaller than that of an average loan granted for other purposes during this period.

## 5. Crop Loans

5.1 Since 1973, the provision of seasonal crop loans too were brought within the CRB Scheme. Credit facilities are provided for paddy and sixteen subsidiary Food Crops; for purposes such as land preparation, seed, fertilizer, agro-chemicals and for harvesting. The scales of finance per acre are periodically decided by the Ministry of Agriculture in consultation with the Banks. Under this scheme the Central Bank provides 100% refinance facilities and the People's Bank lends these funds to MPCs which, in turn relend to member farmers through the CRBs. The performance of this scheme is summarized in the following table.

GOVERNMENT SPONSORED CROP LOANS THROUGH  
COOPERATIVE RURAL BANKS AS AT 30.06.88

Year	Amount Utilized	Total Repayment	Amount Outstanding	% of Recovery
1973	38,381	26,872	11,509	70.0
1974	134,605	76,703	57,902	56.9
1975	97,087	52,293	44,794	53.8
1976	67,491	41,406	26,085	61.3
1977	89,273	43,828	45,445	49.0
1978	371,495	102,051	269,444	27.4
1979	25,995	23,767	2,228	91.4
1980	23,960	21,964	1,966	91.6
1981	28,150	25,639	2,511	91.0
1982	24,096	20,959	3,137	86.9
1983	28,740	26,861	1,879	93.4
1984	23,995	21,842	2,113	91.1
1985	14,829	12,765	2,064	86.0
1986	27,677	23,806	3,871	86.0

Year	Amount Utilized	Total Repayment	Amount Outstanding	% of Recovery
1987	37,240	27,898	9,342	74.9
1988	16,927	7,322	9,605	43.2
<b>TOTAL</b>	<b>1,049,901</b>	<b>555,976</b>	<b>493,925</b>	<b>52.9</b>

## 6. Savings Mobilization

6.1 CRBs have proved to be a very effective medium of mobilizing rural savings. Both the volume of savings and the number of savers bear witness to this phenomenon. As at 30.06.88 Savings and Fixed Deposit balances outstanding were Rs. 1,750 Mn. Of this Rs. 1,556 Mn. were held in 2,273,358 savings accounts.

6.2 Another noteworthy feature of savings mobilization is that 63 percent of savings deposits and 59 percent of savings accounts were held by non-members, which demonstrates the extent of confidence reposed by the rural community in CRBs.

6.3 It may also be of interest to examine the overall profitability of Rural Banks. The main source of income of Rural Banks is the interest received from pawning advances. Their administrative costs are fairly low as these units are managed by a small staff. As at 30.06.1988 of the 967 Rural Banks 597 are reported to be running at a profit. Their total profits were Rs. 31.4 Mn and the total loss of the balance 370 were Rs. 784,731. Thus, the CRBs have become one of the main profit centres of MPCSSs.

### Purposewise Distribution of Loans by Cooperative Rural Banks

Purpose	Amount outstanding as at end 1985		Amount outstanding as at end of 1987		Amount outstanding as at 30.09.89	
		%		%		%
1. Agriculture	32.4		33.2		58.6	
2. Animal Husbandry	11.6	33.0	15.1	19.8	15.9	24.3
3. Cottage industry	16.5		18.6		19.1	

Purpose	Amount outstanding as at end 1985		Amount outstanding as at end of 1987		Amount outstanding as at 30.09.89	
		%		%		%
4. Housing Electrification and Water supply	176.2	59.7	198.2	58.7	252.2	58.9
5. Debt Redemption	17.8	6.0	19.8	5.9	19.9	5.3
6. Consumption	8.4	2.4	10.9	3.2	10.4	2.8
7. Trade and other	32.4	11.0	42.0	12.4	33.0	8.7
<b>Total</b>	<b>295.3</b>	<b>100.0</b>	<b>337.8</b>	<b>100.0</b>	<b>382.1</b>	<b>100.0</b>

6.4 The Cooperative Rural Banks have been an useful instrument for savings mobilization. It has now reached a stage when it would require to adapt itself to being a more dynamic instrument for financing enterprises within the local community rather than be only a means of savings mobilization and an instrument for the transmission of funds from rural areas to developed sectors.

## 7. Fertilizer

7.1 Provision of fertilizer to the farmer who cultivate paddy and other field crops, coconut, export crops is one important supply function undertaken by the Cooperatives. The retail trade of the fertilizer is handled by four agencies :-

- a) Cooperatives;
- b) Agrarian Services Centres;
- c) Private dealers;
- d) Government agencies.

7.2 Although there is competition for the other fertilizer sales agencies the Cooperative Societies have been able to maintain a substantial market in the fertilizer trade. The network of fertilizer sales outlets cover mostly

rural areas. Therefore, the service provided by about 4,000 societies is a significant contribution to the small farm sector.

The fertilizer supplied by the Cooperative Societies is indicated below:-

Year	Quantity-in metric tons
1984	56,633
1985	64,174
1986	55,530
1987	56,574
1988	57,124

## 8. Agro-Chemicals

8.1 The Cooperative Societies are involved in the distribution of agro-chemicals in limited quantities, particularly the fast moving items required for paddy and other field crops. There is of course severe competition from private sector agencies and their authorised distributors. Hence the role of the cooperatives in this venture is marginal.

## 9. Milk

9.1 One of the very important areas of business activities of the Cooperative Societies is the purchase and marketing of milk. These Cooperatives are scattered predominantly in high potential milk producing districts. As stated in an earlier chapter the initial Milk Cooperatives purchased and supplied milk to the members as well as to the hospitals only.

9.2 The National Milk Board purchased all milk collected by the Cooperative Societies. It was subsequently replaced by the Milk Industries of Lanka Company Ltd.(MILCO). The milk collected by these agencies and the percentage sold by the cooperatives are given below:-

Year	Purchases by the National Milk Board/MILCO (Litres)	Supplied by the Cooperatives (Litres)	Percentage
1980	61,862	27,221	44.0
1981	58,330	35,933	61.6

Year	Purchases by the National Milk Board/MILCO (Litres)	Supplied by the Cooperatives (Litres)	Percentage
1982	55,086	33,848	61.4
1983	53,994	31,704	58.7
1984	57,024	24,157	42.4
1985	67,072	30,642	45.7
1986	67,240	31,739	47.2
1987	68,726	35,782	52.1
1988	-	34,330	-

9.3 In addition to the purchasing and selling of milk the Cooperative were involved in processing of milk too. The following will indicate the amount processed by the Cooperatives:-

Year	Curd Pots	Yoghurt Cups	Ghee Bottles	Milk Toffee (50 packets)	Butter 50 grams
1985	83,764	1,076,058	4,855	3,021	1,508
1986	129,832	1,132,772	5,532	9,901	516
1987	174,263	1,445,643	6,264	3,725	2,632
1988	232,646	2,098,419	4,852	3,514	3,530

9.4 Upto 1985 the Cooperatives functioned as the agents of the Milk Board and now they function as suppliers to the Companies. Since the companies have taken over the functions of processing not much potential seems to be having for the Cooperatives to engage in processing of milk products.

## 10. Paddy Purchases and Milling

10.1 The Cooperatives located in the principal paddy producing districts are engaged in the procurement and milling of paddy as a major business activity. Paddy is purchased from the farmer at the Guaranteed Price or sometimes at a higher price depending on the market forces and thereafter either sold direct to the Paddy Marketing Board or milled and sold. In some instances the rice is sold direct to the consumer by the cooperatives.

10.2 The following will illustrate the procurement position of paddy by

the cooperatives :-

1982 - 49,634,855 kg.  
 1983 - 56,397,817 kg.  
 1984 - 30,383,338 kg.  
 1985 - 38,034,394 kg.  
 1986 - 60,168,907 kg.  
 1987 - 32,291,902 kg.

10.3 The Paddy Marketing Board is the State sponsored paddy purchaser and it purchases through a variety of agencies, such as cooperatives, private trader, agrarian services centres as well as direct purchases. The following will indicate the quantity of paddy handed over by the cooperatives to the Paddy Marketing Board and its relative position when compared with the total quantity purchased.

Year	Purchased from Cooperatives	% of the total
1975	11,578,790	100
1976	12,875,460	100
1977	24,555,173	100
1978	29,112,426	90
1979	23,345,273	90
1980	6,966,424	68.77
1981	712,309	11.64
1982	289,172	7.20
1983	6,889,477	18.62
1984	6,265,800	77.51
1985	833,232	18.22

10.4 Of the 283 MPCs 42 possess their own mills which have a total capacity of 67,200 metric tons. The milling and processing of paddy by the cooperatives does not seem to have good prospects partly because the mills used by them in the cooperation are old and obsolete. Majority of these are semi-modern type where de-husking and polishing is done by separate machines. In places like Polonnaruwa and in the Mahaweli System these business enterprises do not appear to be processing well. The private millers are so well organized that the Cooperatives does not have the capacity to withstand the influence of the private agents in this business. It is also a significant feature to note that in districts where cooperatives are performing well the private agencies have not moved into the competition.



## 11. Coconut

11.1 Processing and marketing of coconut products is the main business activity of 6 large Cooperative Societies located in the high potential coconut growing areas. The role of these societies have already been discussed in an earlier chapter. The processing of coconuts take different forms, the most important of which is Desiccated Coconut, and the manufacture of coconut oil. Further, the by-products such as husk, coconut shell are also used for coir based goods and for activated carbon. These societies buy coconuts both from the members as well as from outside, and in addition, they too have land of their own which are used for scientific cultivation of coconuts.

11.2 The details of their purchases, processing and the amounts realized are given below:

Society	Purchases		Production (kg.)	
	Nuts	Desiccated	Coconut oil	Copra
1. Dunagaha	5,184,110	613,380	157,058	196,354
2. Marawila	2,776,790	305,105	-	98,256
3. Kammalpattuwa	1,995,390	566,204	53,807	48,874
4. Nattandiya	2,192,051	234,550	57,800	58,237
5. Sandalankawa	2,744,855	222,130	162,080	198,587
6. Kurunegala	-	-	38,100	55,267
<b>Total</b>	<b>14,893,196</b>	<b>1,941,369</b>	<b>468,845</b>	<b>655,575</b>

The amount realized by these business activities are given below:-  
Rs.

i) Value of nuts	34,868,206.00
ii) From desiccated coconut	29,541,429.00
iii) From coconut oil	9,624,106.00
iv) From copra	10,065,096.00
v) From other products	3,715,875.00

## 12. Rubber Products

12.1 As indicated earlier the rubber Cooperative Societies basically purchase small holder rubber products and organize the small producer as cooperatives and provide services such as credit, equipment and technical know-how.

12.2 The business activity is primarily the sale of sheet rubber. The rubber products purchased by the Cooperative Societies are given below :

Year	Quantity (kg.)
1980/81	2,359,202
1981/82	848,149
1982/83	918,624
1983/84	1,049,147
1984/85	657,504
1985/86	703,041
1986/87	642,478
1987/88	524,870
1988/89	419,092

### 13. Other Services

13.1 A limited role is played by the Cooperative Societies particularly in the agricultural districts in the supply of seed and planting material distribution as well as hiring out simple agricultural equipment like power sprayers, bee-boxes, etc. As there are state run specialized agencies such as Agrarian Services Centres which are set up mainly for this purpose the contribution of the cooperatives in this field is not significant. The cooperatives only help to fill in the gap in locations where other agencies fail to provide these facilities.

13.2 The Fisheries Cooperatives on the other hand provides a better role in providing both services and marketing. As mentioned in a preceding Chapter these societies provide boats as well as fishing gear and loan facilities to the Fishermen. Very often the catch is taken over by the Cooperative and marketed on behalf of the fishermen which ensures a better price. These cooperatives provide all important service functions effectively when compared with other small scale agricultural cooperatives.

13.3 Supply of credit facilities and equipment as a service to the members can also be observed in the Rubber Cooperatives. The Rubber Producers Union which is the apex has provided credit facilities to the MPCS as given below:-

1985/86	Rs. 355,000/-
1986/87	Rs. 330,000/-
1987/88	Rs. 166,000/-
1988/89	Rs. 95,000/-

13.4 The small scale equipment supplied to the members by the Rubber Producers Cooperatives are :-

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Aluminium Trays	33,820	23,098	11,679	17,280	8,843	2,108
Strainers	921	53	110	42	53	63
Acid (Cans)	-	266	234	319	431	1,108
(bottles)	-	-	2,743	5,143	1,260	-
Rubber Rollers	-	-	-	08	01	01

## 1. INTERNATIONAL ASPECTS OF COOPERATION

1.1 'Cooperation' is an international movement. The individual countries and their cooperative organizations have established international linkages, and this has paved the way for enhancing their efficiency through inflow of new concepts, and wider adoption of new methodologies.

1.2 The international linkages with other cooperative systems have enriched the cooperative movement in Sri Lanka in several ways. There are two types of international support programmes, namely:

a) Technical assistance in the form of expert advice, provision of books, literature and periodicals, training of officials and members of the cooperatives, exchange of information and experiences, workshops, seminars, conferences, etc.

b) Donor sponsored special cooperative development projects.

1.3 The International Cooperative Alliance (ICA) is one of the principal agencies set up to facilitate cooperative development in the member countries. This organization was established in 1895 by active participation of a few European countries, had it has expanded rapidly to cover a large number of countries.

1.4 The ICA is not confined to the development of a single type of a cooperative system, but cover both consumer as well as agricultural, insurance, credit, banking, housing, industrial as well as fisheries cooperatives. The Alliance has several specialized committees directly dealing with

various forms of cooperative societies and the experiences. The success stories and problems of those societies have been studied and documented. The information exchanges through ICA has been a very useful method of improving the performance of the cooperative sector in Sri Lanka.

1.5 The ICA is principally responsible for developing a massive information base on cooperatives through their publications, periodicals and news letters. Internationally reputed cooperators have produced high quality publications under the patronage of the ICA on every important aspect of cooperatives. Contribution made by this agency to build up a data base and information system is a significant contribution towards widening the cooperative knowledge of the country. Inter-country seminars, workshops and conferences from other member countries have participated. Free exchange of information and country experiences have stimulated the thinking on cooperatives.

1.6 Other International and Inter-Governmental Agencies which have direct linkages with the cooperative systems of Sri Lanka are the International Labour Organization the Food and Agricultural Organization, the Economic and Social Commission for Asia and Pacific, etc. These agencies too provide information and data, hold conferences, seminars and workshops in regard to matters on cooperation. The periodicals particularly the handbooks and the survey information published by these agencies have been extremely useful in updating the information on global perspectives of cooperation.

1.7 Special reference should be made of the Swedish International Development Agency which stands out as the main international collaborator in initiating and implementing cooperative development projects in Sri Lanka. All technical support under the SIDA Programmes have been channelled through the Swedish Cooperative Centre (SCC) and the local counterpart had been the National Cooperative Council (NCC). Some of these projects were implemented with close cooperation with the International Cooperative Alliance (ICA).

Two such projects are :

- (a) Cooperative Teachers Training Project--1978-1984;
- (b) Consumer Education and training programme for women, 1978-1983.

1.8 The on-going Swedish assisted programmes are basically pointed towards developing the capabilities of the National Cooperative Council (NCC). There are three elements in the programme namely :-

- (a) Cooperative Projects Scheme (CPS);
- (b) Institutional Development Project (IDP);
- (c) Organization based development project.

An important project currently under way is called "NCC Planning Unit" with 6 specific project objectives. There are two projects, the Fishermen's Cooperative Development Project and the Mahaweli Cooperative Pilot Project monitored by the NCC Planning Unit, and implemented under the SIDA assistance.

1.9 In addition there are several donor-sponsored cooperative development projects currently under-way which are given below:-

Donor country	Donor Agency	Project
1. USA	USAID	Support of Credit Union Development
2. Canada Canada	Cooperative Union of Canada CIDA	Support of the Thrift and Credit Cooperative Federation Training of 245 change agents.
3. Norway	NORAD	Dairy Cooperative Component
4. USA	CARE	CARE-Project on mobilization of Savings in rural sector.

1.10 One area which has been identified as weak in the over-all cooperative development efforts is the 'Research' aspect in cooperation. Workshops so far conducted with the assistance from the donor agencies, the studies undertaken and the numerous projects implemented increasingly points towards the necessity of undertaking Research on important aspects of cooperation. There has never been an attempt to build research capabilities into existing institutions or developing an institute especially for conducting research. The time is now appropriate to pursue this proposal. Research on cooperation therefore appears to be a fertile area for future collaborative action with International Organizations which would facilitate policy adjustments and structural changes in the cooperative system of Sri Lanka.

# 1. PROBLEMS AND TASK OF THE AGRICULTURAL COOPERATIVES

1.1 Problems and the task of Agricultural Cooperatives cannot be separated as two, distinctly identifiable components. They are intertwined with each other as inseparable elements of a complex system. In order to comprehend fully the problems faced by the Agricultural Cooperatives in Sri Lanka, and its role as an effective self-managed people's organizations it is necessary, to take a look at the structure of the domestic agriculture together with the livestock and fisheries sectors. This will prepare the necessary backdrop against which the task of the cooperatives should be examined.

1.2 Agriculture in Sri Lanka is essentially a small farmer dominated agriculture. Over 90 percent of the land surface in Sri Lanka is ridge and valley with its basic land elements of valley bottom, slope and ridge. The valley bottom is referred to as the 'lowland' while the slope and ridge as 'upland' or 'highland'. Usually farmers have both the 'lowland' and 'highland' with a part of the highland being used as the homegarden. This could be considered as the traditional form of landholding -- a system that still prevails in the old villages. In the new settlement areas there appears to be certain modifications to this system, due primarily to the settlement policies.

1.3 A single farm component therefore, consists of three separate parts, namely, the 'low land' where usually rice is cultivated, a 'highland' where crops other than rice such as pulses, coarse grains, yams, tubers and oil seeds are grown and the third a 'homegarden' where vegetables and a few perennial tree crops are grown. Animal husbandary, particularly poultry, pigs or goats may be present in the homegarden area.

1.4 The last census of agriculture conducted in 1973 provided information on the small farm sector particularly in relation to its holding size. In the small farm sector there is an estimated 1,645,262 operational holdings covering approximately 1.5 million ha. of land area. The number of holdings have since increased due to settlements under the Mahaweli Development Programme and other irrigation settlement schemes. The general distribution of land in the agricultural sector is 70% highland to 30% lowland. Specifically, of the 1.5 million ha. of cultivated acreage, 31% lowland, 38% highland and 31% homegardens. 88% of all farms and nearly 47% of land in the small holding sector are below 2 ha. as indicated in the census data. Since then land alienation has been on the basis of 1 ha. per family.

1.5 The structure of a small farm in the dry zone and the arid zone is somewhat similar while the wet zone farm takes a different form altogether. The dry zone farm has two basic components. The paddy cultivation under irrigated and rainfed conditions and the other food crops such as chillies, onions, green gram, black gram, cowpea, maize, ground nuts, ginger, livestock rearing in small holding. In the wet zone, paddy and homegardening of vegetables mostly for consumption and horticultural crops, such as plantains, pineapple, mangoes are commonly grown. In the plantation sector rubber, tea are again small mono-crop units while the coconut has comparatively large holdings inter-cropped with export crops and horticulture.

1.6 The role of the agricultural cooperatives should be viewed in the background of this small holder agricultural system of the country. Both the strength and the weaknesses of the cooperatives depend on the degree and extent to which they have succeeded in penetrating this system and providing the supplies and services to the small in an organized manner. The wide range of services that are necessary to support the small farmer dominated agricultural system cannot of course be provided by cooperatives alone nor can it be done by thinly spreading its support over the entire system. It is therefore necessary to identify the most effective and the convenient point of entry to this system. It appears that this point of entry is the two critical areas in the rural agricultural sector namely the credit and marketing.

1.7 Credit has been the most important requirement in the lives of the rural agricultural community. In fact this was identified as the basic necessity of the agrarian society, long ago and the earliest cooperatives were established solely for the purpose of providing credit. However, problems of rural credit have not yet been satisfactorily resolved although a multiplicity of agencies are currently engaged in this task.

1.8 There are two types of credit, namely, institutional credit and non-institutional credit. The first category is provided by the state such as Government Departments, Commercial Banks, and Cooperatives. The second category is the informal system of obtaining credit from the private trader and the rural money lender. There has been a gradual increase of rural indebtedness notwithstanding all efforts taken by the state to redress it.

1.9 The role of the private money lender too increased significantly inspite of the exhorbitant interest rates levied by him. The drift towards non-institutional credit demonstrated the weaknesses of the state spon-

sored credit systems. These were the results of inherent difficulties, red-tapism, built-in-delays in disbursement of credit. Officials who manned those state sector credit institutions often were insensitive to the plight of the people to the extent that their attitudes have turned the people away from the credit institutions to be received warmly by the private money lender.

1.10 Providing rural credit therefore seems to be the most important service that can be extended by the cooperatives. What has to be emphasised here is that although specialized cooperatives have been set up yet their involvement seem to be inadequate. The spread and the coverage of these institutions are insufficient to the task and therefore the opportunities available through cooperatives to reduce rural indebtedness are limited. The credit therefore is the door to the complex small farmer agricultural system from where the cooperatives should widen their tentacles to encompass all aspects of rural life.

1.11 The weakness displayed by the cooperatives in providing rural credit are not problems of the cooperative system but largely the results of policy announcements, and rules promulgated by the Banking sector. The People's Bank is the principal donor agency of rural credit which is channelled through the Cooperative Rural Banks. All conditions, such as security for loans, treatment of defaulters, risk minimization, lending procedures, interest rates and disqualifications of defaulters, to obtain loans are determined by the Registrar of Cooperative Societies and the People's Bank and the Cooperative Rural Bank has become an unfortunate implementer of some of unsympathetic regulations. Loans other than cultivation loans exceeding Rs 5,000 requires security in immovable property. No risk permitted to be taken by the society even though the Board of Directors would like to do so. Re-scheduling of previous loans are done often but no flexibility rests with the society to devise their own system of recoveries by developing social pressures. Loan default under cooperative law is a dispute which has to be resolved through arbitration and enforced by the courts of law. Cumbersome procedures such as numerous form filling and repeated visit to the credit institutions discourage the rural people. Therefore, it is unfortunate that the MPCSSs are not fully geared to providing the most important input of rural development, namely the credit.

It should be maintained in passing that full realization of this has now led to re-thinking in policy circles of the necessity of developing cooperatives as independent credit institutions directly obtaining funds from the Central Bank so that all decisions concerning rural credit could



be taken by the society in disbursing credit. What is required to be accomplished by the cooperative sector is not merely providing loans and recovering but introducing a sound 'Credit Culture' which could be spread and sustained.

1.12 On the other hand it is worth examining how credit has become the binding factor of a village called Hakahinna in the Kegalle District where the focal point has become the Thrift & Credit Cooperative Society. Although there are several rural level institutions in this village this society has risen to be the dominant force.

1.13 Hakahinna village has very small farmers whose livelihood is paddy cultivation. The degree of rural indebtedness is very high. Therefore, the need for rural credit has been identified as the priority in the village. A credit programme is prepared by the Board of Directors of the Thrift & Credit Cooperative Society at the beginning of the year by calling for applications from the members and it is discussed at a general meeting where all members participate. The applications are openly examined where their requirements of credit is closely scrutinized. Their assets, liabilities and the capacity for repayment studied and adjustments are made to accommodate the requests sometimes even by changing the rules. The lending criteria, amounts to be loaned, recovery rates and procedures are often adjusted within the permissible limits. Through a process of dialogue the member is given an insight into the credit system. At these meetings repayments are examined openly and soft social pressure is exerted to encourage repayment.

1.14 The lending system covers a wide variety of activities, such as, redemption from debt, house construction, cultivation consumption ill-health, purchase of assets, equipment, etc. This society has also entered into the field of supplies and services such as marketing, provision of fertilizer; agro-chemicals, extension services etc. Since there are regular meetings the extension officers meet the members and discuss cultivation problems and provide technical information. Matters concerning health, education, family planning, investments in productive enterprises are also discussed. This cooperative society is a very clear example as to how a rural level cooperative has entered into the social system and has become a dominant, vibrant farmer organization.

1.15 The task of an agricultural cooperative should be somewhat similar to what is explained above. To accomplish this task the primary society should be as close to the members as possible, and sensitive to the requirements and aspirations of the people.

1.16 It is appropriate at this juncture to take a macro view of the entire cooperative system to identify the principal constraints. The 283 Multi-purpose Cooperative Societies have a chain of about 8,000 outlets or branch committees spread over the country. What is closest to the members is this outlet where the members frequently visit. The main office of the MPCS is located in a central place which is far away from the members. The actual management and all decision making is done by the Board of Directors, while the branches which are closest to the people do not have such authority. It is in fact a satellite of the MPCS which has only a limited role to play. For instance, the provision of rural credit cannot be done by the branch committees. It can only be recommended and the decision is taken by the 7 member Board of Directors which operates from a distant place. If a greater degree of service is anticipated from the cooperative system then the branch committees should be fully equipped by providing the necessary legal authority through appropriate changes in the by-laws.

1.17 The primary societies functioning today do not display adequate dynamism. It should, at the very outset, expand the service base so as to bring about more member participation. Providing knowledge and guidance to the membership should be the responsibility of the primary cooperatives.

1.18 The farming community lacks scientific market information. They depend mostly on their limited sources of information which are often erratic. There has been no systematic marketing information system reaching the farming community and this can be accomplished by the cooperatives which would in turn help the farmer to plan out the production programmes. There are a few cooperatives handling non-perishables which have successfully provided this service such as the Dimbulagala Cooperative Society.

1.19 Provision of marketing information by systematic market analysis has not yet been attempted and this is indeed a weak area in the agricultural cooperative system in the country. If this is to be achieved then the societies should be equipped to do so by providing adequate training and developing systems of two-way information flow. Sufficiently trained people should be appointed to more important positions and modern communication and information systems should be developed to facilitate information reaching the members.

1.20 Agricultural programmes particularly in the crop sector are not entirely market oriented, but largely based on agronomic considerations. If market trends are indicated it would sometimes lead to changes in the

cropping pattern to suit specific markets. Sale of produce will not be a routine exercise, but farmers will watch the correct time to dispose of the produce. Since the cooperatives are involved in credit, consumption credit can often be provided at critical times during this period.

1.21 Spread of production information to other areas has been a rather weak aspect in the agricultural marketing systems in the country. This has been happening through informal systems. This gap can easily be filled by the cooperatives where production programmes can be made known laterally to other areas through their network of cooperatives. It would eventually lead to inter-cooperative trade where farmer-trader relations could be further stimulated and strengthened.

1.22 One of the reasons for the weakness of the agricultural cooperatives is the ineffectiveness of the apex organizations. The apexes currently in operation have a limited function and do not provide the desired back up support. It should be the responsibility of the apex to engage in trade both local and foreign in a more organized scale, enter into forward contracts, search for market and create market opportunities. In addition the processing and value adding should also be the responsibility of the apexes. Once this is accomplished at the top, the primary societies will fall in line as their agents and activities at the base level will increase significantly.

1.23 The apex should be the spokesman for the cooperative at all levels. It should effectively represent the cooperative system and the chain of societies down below and intervene at every level to protect and safeguard the interest of the primary societies. It should invariably be a powerful lobby where its voice will be heard and recognized by the Government. This intervention is particularly relevant in Sri Lankan context where several policy decisions are taken often influenced by fiscal and trading considerations.

1.24 If apexes are to be developed the system should accordingly be restructured where the voice of the members down below are heard and recognized at the top. This would mean effective representation from the primary cooperatives to the apex. One weakness that has been identified is that the representation is ineffective and hence the member participation and involvement is totally inadequate.

1.25 The structural and organisational weaknesses of the agricultural cooperatives have hamstrung their development as effective rural level organizations. The strength of any system depends on the strength of its vital link. It is an accepted fact that no rural level organization could progress if it lacks full member involvement in its management and decision making and such involvement and participation should flow from the type of services that can be provided.

1.26 The cooperative movement has not yet become a recognizable force. This is principally due to the inadequacy of the government acceptance that the cooperative society is a strong people's organization which has the potential of taking over a significant portion of the support functions and entering the development process as partners. There are a multiplicity of voluntary organizations, people's institutions as well as organized private sector directly involved in many aspects of economic and social life of the people. There is strong competition particularly in the trading and business activities offered by the private sector and state sponsored agencies. Similar competition is faced by the cooperative societies from the other village level institutions such as Agrarian Services Centres, producer groups, in regard to the provision of services and supplies. Unlike in certain countries the state has not offered any special facilities nor bestowed special privileges on the cooperative societies. Trading monopolies have not been given as it is contrary to the accepted policies of free economy.

1.27 Inadequacy of Government recognition of the Cooperative Movement and the resultant lack of commitment displayed by the authorities are principally due to the fact that the movement has not displayed sufficient dynamism to stimulate and influence Government thinking. The chief spokesman for the Cooperative Movement is the National Cooperative Council. The apexes which represent various sub-sectors should propell the National Cooperative Council to creating the atmosphere of influence at appropriate levels of authority so that the voice of the movement would be heard, recognized and honoured as a living force.

1.28 In order to eliminate the weaknesses and also to develop the cooperatives as a vibrant people's organization in the rural sector, the entire agricultural cooperative system should undergo fundamental structural changes where the focus should be the strengthening of the primary societies. The state recognition of the Cooperative System as a vehicle of rural development supplemented by statutory and financial back up should be forthcoming if the cooperatives are called upon to accomplish the tasks. The bureaucratic controls and interventions in the system should be designed as facilitating exercise. It should not circumscribe the freedom of the movement or the supremacy of the membership. Action should therefore be directed at empowering people at the micro-level by equipping them with needed skills, experience, resources and power, so that this institution could be transformed into a strong self managed people's organization which could progressively replace the paternalism demonstrated by the bureaucracy.

## ACRONYMNS

ACA	Agricultural Credit Administration
ACASH	Association of Corporation and Apex Societies of Handlooms
ACCFA	Agricultural Credit and Cooperative Financing Administration
ACCI	Agricultural Credit and Cooperative Institution
ACSTI	Agricultural Cooperative Staff Training Institute
AIHFCM	All India Handloom Fabric Cooperative Marketing Society
AISCOSPIN	All India Federation of Cooperative Spinning Mills
AMC	Area Marketing Cooperative
APC	Agricultural Productivity Commission
ARDC	Agricultural Refinance & Development Corporation of India
BACOD	Bureau of Agricultural Cooperative Development
BANGKOOOP	Federation of Cooperative Rural Banks of the Philippines
BACOD	Bureau of Cooperatives Development
BGF	Barangay Guarantees Fund
BRDB	Bangladesh Rural Development Board
BSBL	Bangladesh Samabaya Bank Ltd.
BSF	Barangay Services Fund
BSMS	Bangladesh Samabaya Marketing Society Ltd.
BSS	Bittahin Samabaya Samiti
CA	Commonwealth Act
CAB	College of Agricultural Banking
CALF	Comprehensive Agricultural Loan Fund
CBP	Central Bank of the Philippines
CCBs	Central Cooperative Bank
CCCC	Cooperative Coordinating & Consultative Council
CCCT	Central Committee for Cooperative Training
CCDFI	Central Cooperative Finance Development Intermediary
CCMPS	Central Cooperative Multi-purpose Society
CDLF	Cooperative Development Loan Fund
CDP	Cooperative Development Programme
CEI	Cooperative Education Instructors
CETF	Cooperative Education and Training Fund
CFPI	Cooperative Foundation of the Philippines
CIDA	Canadian International Development Agency
CISP	Cooperative Insurance System of the Philippines
CLUSA	Cooperative League of USA
CRB	Cooperative Rural Bank
CUP	Cooperative Union of the Philippines
DA	Department of Agriculture

<b>DANIDA</b>	Danish International Development Agency
<b>DCCB</b>	District Central Cooperative Bank
<b>DCH</b>	Development Commissioner for Handlooms
<b>DCO</b>	District Cooperative Officer
<b>DLGCD</b>	Department of Local Government and Community Development
<b>DTW</b>	Deep Tube Well
<b>EEC</b>	European Economic Community
<b>FACOMA</b>	Farmers Cooperative Marketing Federation
<b>FAO</b>	Food and Agriculture Organisation
<b>FISHCOPFED</b>	National Federation of Fishermen's Cooperative Ltd.
<b>FSS</b>	Farmer's Service Societies
<b>GSS</b>	Gram Seva Sahakari Samities
<b>ICA</b>	International Cooperative Alliance
<b>IDA</b>	International Development Agency
<b>IDACA</b>	Institute for Development of Agricultural Cooperation in Asia
<b>IFFCO</b>	Indian Farmers Fertiliser Cooperative Ltd.
<b>ILO</b>	International Labour Organisation
<b>IMP</b>	Irrigation Management Project
<b>INCAS</b>	Integrated National Cooperative Audit System
<b>KRIBHCO</b>	Krishak Bharati Cooperative Ltd.
<b>KSS</b>	Krishi/Krishak Samabaya Samity
<b>LAMPS</b>	Large-sized Agricultural Multi-purpose societies
<b>LDBs</b>	Land Development Banks
<b>LLP</b>	Low Lift Pump
<b>LMB</b>	Land Mortgage Bank
<b>MBSS</b>	Mohila Bittahin Samabaya Samity
<b>MTAP</b>	Management and Training Assistance Programme
<b>NABARD</b>	National Bank for Agriculture and Rural Development
<b>NATCCO</b>	National Confederation of Cooperatives
<b>NCA</b>	National Cooperative Administration
<b>NCE</b>	National Centre for Cooperative Education
<b>NCCF</b>	National Cooperative Consumers Federation
<b>NCCT</b>	National Council for Cooperative Training
<b>NCDC</b>	National Cooperative Development Corporation
<b>NCDFI</b>	National Cooperative Dairy Federation of India
<b>NCHF</b>	National Cooperative Housing Federation
<b>NCLDBF</b>	National Cooperative Land Development Banks Federation
<b>NCUI</b>	National Cooperative Union of India
<b>NDC</b>	National Development Council
<b>NDDB</b>	National Dairy Development Board
<b>NEA</b>	National Electrification Administration
<b>NF</b>	National Federation

NFCSB	National Federation of Cooperative Sugar Factories
NFCUB	National Federation of Urban Cooperative Banks and Credit Society
NFIC	National Federation of Industrial Cooperatives
NFLC	National Federation of Labour Cooperatives
NFSCB	National Federation of State Cooperative Banks
NHDC	National Handloom Development Corporation
NHEC	National Heavy Engineering Cooperative
OTC	Office of Transport Cooperatives
PACS	Primary Agricultural Credit Societies
PCL	Petrofils Cooperative Ltd.
PCMS	Primary Cooperative Marketing Societies
PCU	Provincial Cooperative Union
PD	Presidential Decree/Project Director
PKSN	Pambansang Kitipunan ng mga Samahang Nayon
PLDBs	Primary Land Development Banks
RA	Republic Act
RBI	Reserve Bank of India
RCS	Registrar of Cooperative Societies
RCU	Regional Cooperative Union
RPP	Rural Poor Programme
SCB	State Cooperative Bank
SCCP	Supreme Cooperative Council of the Philippines
SCDIP	Sugar Cooperative Development Institute of Philippines
SCMF	State Cooperative Marketing Federations
SEC	Security and Exchange Commission
SIDA	Swedish International Development Agency
SLDBs	State Land Development Banks
SN	Samahang Nayon
SRA	Sugar Regulatory Administration
STW	Shallow Tube Well
TCCA	Thana Central Cooperative Association
TMO	Technology Mission on Oilseeds
TOBACCOFED	National Cooperative Tobacco Growers Federation
UCCA	Upazila Central Cooperative Association
UCMPS	Union Cooperative Multi-purpose Society
UNDP	United Nations Development Programme
URDO	Upazila Rural Development Officer
USAID	United States Agency for International Development
VMNICM	Vaikunth Mehta National Institute of Cooperative Management
WFP	World Food Programme