

# Readings in Agricultural Cooperative Marketing



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INTERNATIONAL COOPERATIVE ALLIANCE



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**INTERNATIONAL COOPERATIVE ALLIANCE**

Regional Office for South-East Asia,  
'Bonow House', 43 Friends Colony (East),  
New Delhi 110-065, (India).

# **INTERNATIONAL COOPERATIVE ALLIANCE**

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**PART—I**

**AGRICULTURAL COOPERATIVE  
MARKETING IN COUNTRIES  
OF THE REGION**





# BANGLADESH

Mohammed Obaidul Huq\*

**B**angladesh is predominantly an agricultural country. Agriculture contributes 55% to the country's Gross Domestic Product and roughly 80% of the population are directly or indirectly dependent on agriculture for their subsistence. The major portion of the country's foreign exchange is earned through the export of agricultural goods and commodities. So agriculture is the mainstay of the economy. But the man who works at the grassroot level for the promotion and development of agriculture is not looked upon as important as agriculture is for the country. His interests are not taken care of in the context of his being an essential element in the whole productive process in this key sector of the economy. Little attention is paid for promoting his welfare for the greater good of the country. He produces the goods and services by the sweat of his brow but the irony of fate is that he does not get a fair price for his produce—a tragic event in our national life.

Apart from market imperfection, agricultural produce in our country passes through a number of stages before it reaches the ultimate consumers and in the process many problems are faced at various stages of marketing operation, adversely affecting the interests of the producer on the one hand and the ultimate consumer on the other.

There is a long chain of middlemen between the producers and the consumers, and the middlemen charge for their services a price which is reflected in the difference between the price paid by the consumers and that received by the producers. It has been identified that there exist as many as seven intermediaries between the producers and consumers. They are *faria*, *bepari*, *aratdar*, *delal*, stockist, wholesaler and retailer, each taking a share in the deal.

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The transport and communication system of Bangladesh is not so developed as to connect the market centres with the farm areas spread over the length and breadth of the country. This has given rise to multiplicity of small dealers and intermediaries in the rural areas. As a result, there is always a big difference between the price paid by the ultimate consumers and that received by the producers. This hinders a uniform price structure necessary for price stabilisation in the country.

With the commercialisation of agriculture in recent years, agriculturists run the risk of being exploited by unscrupulous traders and dealers on a wider scale than ever before. The agricultural producers are in most cases poor, and as such they are ill-equipped. Very often they lose a considerable part of the value of their produce because the marketing system is wasteful and inefficient or because it operates less in their interest than the interest of others involved in the process. They are too small in the marketing system when compared with the various agents engaged in marketing activities. They cannot hold over their produce for better prices as they are required to meet certain pressing needs, including repayment of debts. So they are compelled to dispose of their produce at a given price offered to them at a particular period or point of time. Added to these, there is an acute dearth of storage facilities, and so the producers cannot hold back their produce till such time as the price goes up enabling them to get a fair price for it.

Lack of grading and standardisation is another problem in agricultural marketing operations. There are only a few products, such as jute, tea, hides and skin which have standard grades. Rice varieties are well known and as such they do not require any grading. But most farm products remain ungraded. The quality of the produce is often under-estimated by the *farias* and other middlemen so as to deprive the producer of a fair price and thereby maximise the share of their margins.

There are certain fraudulent practices in agricultural marketing in Bangladesh which include use of false weights and measures.

levy of a number of charges, unauthorised deductions etc. Weights and measures present a bewildering variety of standard from place to place. *Farias, beparies, aratdars* and wholesalers levy a number of charges on the commodities sold by the producer. They also make a variety of deductions on some plea or other.

The farmers of Bangladesh do not have any organised forum of their own to create favourable market conditions. They carry on marketing activities on an individual basis in a very highly competitive situation. Inadequate marketing intelligence is a deterrent factor accounting for unfavourable market conditions for the growers. The grower, as a matter of fact, does not have upto-date information on production, prices, arrivals, dispatches, stock, export, import and similar other matters affecting the demand for and supply of agriculture produce.

Effective measures need to be taken with all seriousness to give relief to the agriculturists in ensuring a fair price to them, because it will have a long term effect on the economy of the country, and the society as a whole will benefit considerably.

### **Evolution of Agricultural Cooperative Marketing and its quantitative performance**

The origin of agricultural cooperative marketing dates back to 1920 when the jute cooperatives were organised to safeguard the interests of jute growers. Initially, the jute cooperatives received the active support and cooperation of the growers and made satisfactory progress. Eventually, however, jute cooperatives could not withstand the combined opposition and competition of the foreign shippers, balers and millers. As a result, the pious intention with which the jute cooperatives were organised was doomed to frustration.

At the time of partition of the Indian subcontinent, the jute trade received a severe setback consequent upon India's refusal to buy from erstwhile East Pakistan. The continued slump in the jute market almost shattered the foreign trade of Pakistan. This

led to the promulgation of the Jute Ordinance in 1949 and the establishment of the Jute Board. The avowed object was to protect foreign trade in jute and safeguard the interests of the growers.

The Ordinance provided for fixation of minimum prices for sale and purchase of jute. The minimum prices of raw jute were fixed by the Government but the trade did not respond favourably to the new situation. The pious intention of the Government was frustrated by the trader who dominated the market. To arrest further aggravation of the situation the Jute Board came forward to buy jute at the official minimum rates through its appointed agents. This arrangement also failed to achieve the desired result because the middlemen in the trade continued to pay much less than what was officially fixed even while entering the official rates in their book of accounts. As an alternative arrangement to tackle the situation an apex organisation was established in 1952 at the provincial level to control and supervise the jute cooperatives.

The apex society started functioning with 57 affiliated societies and 119 jute purchase centres. The Government entrusted the apex organisation and its affiliated societies with the responsibility of buying jute in the border areas to stop smuggling. The responsibility was carried out successfully.

Cooperative jute established a foreign market for itself, taking up sale to Great Britain, France, Holland, Germany, Italy, the U.S.A. and India. There was substantial expansion of the cooperative jute business during the year 1955-56. The cooperative became the fifth largest shipper in the province to the foreign countries. "Coop" trade mark was established in the world market and "Coop" jute often got premium in the foreign markets as well as the local market for its standard quality. The presence of cooperatives in the jute market had the salutary effect of keeping the market to a large extent free from manipulation by and influence of jute traders.

But during the years 1956-58, the cooperative jute business suffered serious losses due to price fluctuations and a long-standing slump in the jute market. The result was the gradual decline of the jute cooperatives and the ultimate liquidation of the East Pakistan Provincial Cooperative Jute Marketing Society.

During the second and third Five-Year Plans (1960-70) of Pakistan a development scheme entitled "Cooperative Credit and Marketing Structure in East Pakistan" was sponsored by the Government for integrating credit with marketing.

This scheme sought to build up an institutional framework for carrying on marketing activities through cooperatives with a view to providing marketing facilities and supplies to the agriculturists. With this end in view, an apex marketing organisation, 45 central marketing societies and 1,000 primary societies were taken under development with provisions for storage and processing facilities through five cold storages, four rice mills and one oil mill at the national level, 30 big godowns at the secondary level and 500 small godowns at primary level.

Initially, the activities under this scheme suffered due to managerial inefficiency, disloyalty of the members, lack of understanding of cooperative principles and ideals and lack of business acumen. Nevertheless, the marketing cooperatives succeeded in making a breakthrough in the traditional marketing structure which was entirely dominated by a long chain of middlemen. The farmers were benefited by the scheme as they got marketing facilities and their farm needs from the cooperatives. The marketing cooperatives have, however, continued efforts for providing the members with their farm needs and marketing facilities for their produce. It is worthwhile to mention here that due to exigencies the apex organisation was called upon to perform certain odd jobs immediately after the establishment of Bangladesh. This, however, diverted the apex organisation from its main concern as envisaged in the project document. The apex organisation was relieved of the additional responsibilities later on and since then it has started carrying on its normal marketing activities which are confined to agricul-

rural produces such as potato, pineapple, cocoanut etc. besides providing processing facilities to the members.

### **Objectives of Marketing Cooperatives Primary, Regional & National**

Precisely, the main objective of the marketing cooperatives in Bangladesh is to provide an effective marketing and service organisation and to establish the necessary link-up between credit and marketing so that the agricultural producer may be saved from the payment of exorbitant interest rates on the one hand and exploitation by the middlemen on the other.

In the context of the above. the objectives of the primary, regional and national marketing cooperatives may be broadly stated as follows :

- (i) *Primary*- At the primary level the Union Cooperative Multipurpose Societies will handle credit, marketing and provision of farm supplies and daily necessities of life and provide storage facilities.
- (ii) *Regional*- At the regional level the Central Cooperative Multipurpose Societies will act as affiliating agencies for marketing and supplies.
- (iii) *National*- At the national level the Bangladesh Samabaya Marketing Society will act as an agency for affiliating marketing and supplies.

At present the marketing cooperative structure in Bangladesh is composed of three types of cooperative societies. They are (i) the Union Cooperative Multipurpose Society at the grassroot level ; (ii) the Central Cooperative Multipurpose Society at the regional/secondary level ; and (iii) the Bangladesh Samabaya Marketing Society at the national level. Each type of society carries on a specific function assigned to it by the Registrar of Cooperative Societies. The structure has been so designed as to provide marketing services and supplies to the ultimate grower members in a well coordinated manner.

On the recommendation of the Credit Enquiry Commission the Government sponsored a development scheme entitled "Development of Cooperative Credit and Marketing Structure". The main objective of the scheme was to rehabilitate the cooperative credit and marketing structure in the country. To this end, the scheme provided that marketing should be linked up with the credit operations of the Union Cooperative Multipurpose Societies at the primary level. For this purpose the Central Cooperative Multipurpose Societies would function as marketing societies at the secondary/regional level in *mandi* areas, and the East Pakistan Provincial Cooperative Marketing Society (now Bangladesh Samabaya Marketing Society) at the apex level. To facilitate marketing, the Union Cooperative Multipurpose Societies are to route the agricultural produce of the members to the Central Marketing Societies and if necessary make direct purchase as agents of the central marketing societies. Along with marketing, supply of farm needs and daily necessities of life to the members is also to be undertaken by the central marketing societies. For this purpose, the Provincial Marketing Societies would act as the apex service organisation.

As per the recommendation of the Credit Enquiry Commission the scheme "Development of Cooperative Credit and Marketing Structure in East Pakistan", provided :

that Union Cooperative Multipurpose Societies should be developed in a phased manner as primary units of the marketing organisation. (They would perform the functions of routing the produce of their members to the marketing societies at secondary level. The Union Cooperative Multipurpose Societies would undertake supplies of farm needs and other necessities of life);

that Central Cooperative Multipurpose Societies should be developed as marketing societies at secondary level as affiliating agencies for marketing and supplies ;

that with a view to coordinating the marketing and supply activities of the cooperatives, an apex marketing and service organisation should be organised and developed;

Within the bounds of the above, the primary, secondary and the apex cooperative societies have been performing their functions as follows .

(a) *Primary level*- The Union Cooperative Multipurpose Societies are engaged in (i) assembling and collecting of the members' produce at the grassroot level, (ii) providing storage facilities, (iii) financing the agriculturists and (iv) supply of farm needs and daily necessities of life to them.

While performing the above functions, the societies have been carrying on the business operations in the following way : (i) consent of the Executive Committee is a prerequisite for purchase and sale of commodities, (ii) Commodities are purchased and sold to the members as per market rate, (iii) Agricultural commodities purchased from the members in the harvesting period are sold when the price rises.

(b) *Secondary level*- The Central Cooperative Multipurpose Societies have been performing the functions of providing (i) storage facilities to the member societies ; (ii) disposing of the commodities when the price goes up due to interaction of demand and supply ; and (iii) providing input supplies.

(c) *National level* - The apex marketing society has, for all practical purposes, been functioning as a coordinating organisation for marketing and supply activities of other marketing cooperatives in the country. Besides, the apex organisation has been (i) assembling and collecting agricultural produces of the member-societies spread over the far flung areas of the country and (ii) providing storage, processing and transportation facilities.

### **Commodities handled and Marketing Procedures**

As already stated, the cooperative marketing structure that has been built up in the country is a three tier system. The societies organised under the system have been carrying on business operation within the limits specified in the scheme for Development of Cooperative Credit and Marketing Structure. The primary



objective of cooperative marketing is to save the agriculturist members from the clutches of the middlemen and thereby ensure a fair price to them for their produces. With this end in view, the marketing societies at different levels have been handling certain primary agricultural commodities produced by the members such as rice, wheat, potato, fish, jute, mustard seeds, pineapple etc.

For marketing of the above items the procedures followed are rather simple. To start with, the primary societies make direct purchase from the producers during the harvesting period to arrest the fall of price and store the same in the societies' godowns to fetch better returns for the producer. Likewise, the Central Societies also make direct purchase of goods and commodities from the primary societies and store them in societies' godowns and dispose of the same when the price goes up. The national society purchases agricultural produces from both the central and primary societies according to its convenience.

The society makes arrangement for storing, preservation and processing of the goods and sells the same when the market situation is favourable.

In transacting marketing operation the societies at all levels are required to hold discussion of the members on the Board of Management and the decisions taken are final in all matters.

## **Export**

The marketing operation carried on by the cooperatives is confined to the agricultural items such as rice, jute, wheat, mustard seeds and some other traditional items. The main concern of a cooperative marketing society in our country is to make arrangement for marketing of the members' produce and to protect him from the clutches of the middlemen. So the scope of cooperative marketing is limited in its overall operations. Despite this fact, the fishery cooperatives in our country have been playing a significant role in carrying on foreign trade in fish and fish products.

Fish, as is well known, is one of the important items of our food and it supplies our protein requirement. Fishing is almost wholly dependent on traditional fishermen, who constitute one of the most important segments of our population. They are about 500,000 in number and they absolutely depend on fishing for their living. But the fishermen have since been the most depressed community in the society. They could hardly make both ends meet with their meagre income. They were ill-equipped and were dependent on the middlemen for necessary credit to carry on their fishing operation. The middlemen taking advantage of their financial hardship used to exploit them to the maximum extent possible. Cooperatives, therefore, came forward to protect them from this ruthless economic oppression of the heartless middlemen. Fishermen's cooperatives were formed covering the fishing pockets of the country.

The fishery cooperatives have developed some physical facilities for deep sea fishing and preservation and processing of fish. These physical facilities include, among others, mechanised boats, ice plants, net factory, fish carrier vessels, trucks etc. The catches of the fishermen are channelised through the fishermen's cooperative societies for marketing purposes. The achievement of the fishery cooperative lies in the fact that it has succeeded in reducing the predominance of the middlemen, ensuring fair price to the fishermen and improving their socio-economic conditions.

The fishery cooperatives have been making concerted efforts to increase fish catches through mechanisation of fishing and to boost up export of fish and fish products. The foreign exchange earning of fishery cooperatives was of the order of TK. 110 million (approximately) during the period 1975-76 to 1981-82.

### **Benefits accruing to members through Cooperative Marketing**

The cooperative department conducted a research study on "Operation of Cooperative Agricultural Supply and Marketing Societies" in June 1968. For this study necessary data were

collected with the help of a questionnaire which included, among others, a question about the benefits accruing to the agriculturists from agricultural cooperative marketing. That study reveals that agricultural cooperative marketing has

- (i) Strengthened the financial capability of the members ;
- (ii) Strengthened holding capacity ;
- (iii) accelerated loan repayment position ;
- (iv) ensured fair price for agricultural produce ;
- (v) created scope for share of profit earned by the cooperatives ; and
- (vi) reduced transport costs.

The financial structure of agricultural cooperative marketing societies has been built up out of the small savings of the members in the form of share capital, reserve fund and deposits of the members which stood at TK. 33.6 million in the year 1981-82. The government has provided a substantial amount to build up the capital structure of agricultural cooperative marketing societies under the scheme for "Development of Cooperative Credit and Marketing Structure". Under this scheme government contribution towards the share capital of the apex marketing organisation was of the order of Rs. 2.5 million and that of the Central Cooperative Multipurpose Societies was to the tune of Rs. 1.35 million, while government grant towards construction of godown of secondary and primary societies stood at Rs. 8.3 million (1960-70). The Government also provided Rs. 4.5 million for maintenance of staff cost of the marketing cooperative societies taken under development and a further sum of Rs. 297,000 for meeting the training costs of staff recruited under the scheme.

### **Manpower Development for Cooperative Marketing**

The scheme for "Development of Cooperative Credit and Marketing Structure" which was implemented during the period 1960-1970, provided for manpower development in a phased manner for its successful implementation. Under this scheme as many

as 630 personnel of the national, secondary and primary societies were appointed and given training on cooperatives. Besides, a good number of cooperators who are actively associated with the marketing cooperative societies have acquired sufficient experience and business acumen through their actual handling in the marketing operation of the societies.

### **Role of Govt. in promotion of Agricultural Cooperative Marketing**

For promotion of agricultural cooperative marketing in the country the government has participated directly in the build up of its capital structure, and guided and supervised the activities of the marketing cooperatives by deputing officers and staff as and when required. The cooperative department, as a government agency has been entrusted with the responsibility of looking after the administration and management of agricultural cooperative marketing societies. In order to enforce marketing discipline and to streamline the overall functioning of agricultural cooperative marketing the government issued circulars and instructions and adopted such other measures as are deemed necessary from time to time in the interest, of marketing cooperatives in the country. As a state policy the government is committed to the nourishment of cooperatives to speed up the pace of rural development, and the agricultural marketing cooperative is getting government support as an integral part of rural development.

### **Problems arising out of Government Planning, Policies and Programmes**

For many reasons cooperatives occupy a place of importance as an instrument of development. It is important to note here that the institutional facilities which have sprung up in Bangladesh owe their origin to the policy decisions of the government as far back as in the year 1960 which witnessed the organisation and development of an apex cooperative marketing society, 45 central marketing societies and as many as 1000 primary marketing societies with storage and processing facilities. Agricultural cooperative

marketing has since been receiving government support and patronage for its smooth development and for that matter to deliver the goods to the agriculturists under the fold of cooperatives. Government policies and programmes do not stand as deterrent factors for cooperative marketing operations. Government policy and programmes have provided a congenial seed-bed for the growth and development of marketing cooperatives. Admittedly, government support and cooperation extended to the marketing cooperatives have gone a long way in creating a marketing framework in the country. Unfortunately the results obtained are not as encouraging as were expected by its sponsors. In the context of this situation the government is required to play a more pragmatic role for making the marketing cooperative a success.

### **Linking of Cooperative Marketing with State Sector Trading Organisation**

In Bangladesh agricultural cooperative marketing has not been linked up with the state sector trading organisation. Cooperative marketing operations are confined to the country for providing marketing and service facilities to the members.

### **Problems**

In view of the socio-economic peculiarities of Bangladesh, it is an ideal base for development of cooperative marketing. But cooperative marketing in Bangladesh could not make satisfactory progress as it encountered many problems concerning management and deterioration of human values. Suffice it to note here that lack of managerial efficiency in the rank and file of the board of management is responsible to a great extent for the inefficient handling of marketing activities. The persons at the helm of affairs of the marketing societies do not have sufficient experience and business acumen to run the marketing operation smoothly. The question of carrying marketing on a large volume is dependent on the availability of adequate finance which most of the Societies do not have and as a result it has become increasingly difficult for

them to run on profit basis. Consequently the societies fail to bring in benefits for the members to convince them of the utility of coming under the fold of cooperatives. As a natural corollary the societies very often find it difficult to make advances to the members against pledge of goods not to speak of providing the members with the ways and means during the interim period to fall back upon. More importantly, the central cooperative marketing societies as well as the primaries do not have any processing facilities while the storage facilities available are not sufficient to meet the requirement and as a result it has been one of the puzzling problems all through. More often than not, the marketing operations suffer from lack of decision at the appropriate level. Apart from the management crisis and the financial situation of the societies, there are other problems hindering the development of cooperative marketing such as disloyalty of members, unwillingness to repay loans in kind, predominance of the well-to-do farmers, vested interests and local power structure clique.

### **Prospects**

The management and development of agricultural cooperative marketing in Bangladesh owes essentially to prevailing environments in its totality. It is important to note here that cooperative marketing remains the only way to do away with the evil effects of the present marketing. Of course, it has been observed that the management crisis has been the chief stumbling block for development of agricultural cooperative marketing. This can, however, be overcome in a planned way by undertaking measures for improving management efficiency at different levels. The government can encourage gradually independent management of marketing cooperatives from within. In order to streamline the activities of cooperative marketing the government, if found necessary, can think of strengthening the existing institutional framework at different levels of agricultural cooperative marketing.

Despite various limitations, the marketing cooperatives have provided the members with storage and processing facilities. Given

the necessary financial support and technical knowhow, they can reasonably expect to attain success and to benefit the members. These cooperatives have, through trial and error, become acquainted with the essential prerequisites for conducting marketing in a businesslike manner necessary for the uninterrupted growth and development of a viable cooperative marketing structure. The success of agricultural marketing cooperatives lies in the fact that it has been able to make a breakthrough in the market which was dominated by the middlemen in all stages of marketing operation of agricultural produces.

# INDIA

G.S. Kamat\*

**T**HE marketing concept is getting broadened with the passage of time and in response to the needs of the dynamic situation obtaining in the markets. Today the term "marketing" includes not only purchase and sale of goods but also all those activities that facilitate flow of products from the producer to the consumer. The marketing process has both physical and psychological aspects of selling. The psychological dimensions of marketing expect the sellers to know what the buyers want and the buyers are made aware of what is available for sale to satisfy their particular wants. The physical dimensions of marketing relate to the transport of goods in demand from the place to places where they are in demand in appropriate quantity and in time when they are wanted. Thus, marketing encompasses the function of exchange involving selling, demand creation, buying, assembling and dispersal as also facilitating functions like standardisation, storage, transportation, financing, market research, risk bearing etc. These operations are performed one or more number of times in the course of flow of goods and services from producers to consumers. Even if some agencies performing any of these functions are eliminated there would still be need to perform these functions by someone as these are an integral part of the marketing process.

## Objectives

The end of objective of marketing, like other productive activities, is to satisfy human wants and help to improve the quality of human life. The earning of revenue is an incentive for the performance of this useful activity. In developing countries, in particular, marketing is the most important multiplier of economic development. It makes possible economic integration

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and better utilization of assets and productive capacities. Thus, it can be seen that marketing is much more than a mere selling operation.

### **The Process**

Thousands of individuals and hundreds of institutions are engaged in a variety of operations that constitute what is described as the marketing process. The exact amount of the national marketing bill is difficult to estimate, as also the number of persons employed and engaged in the marketing process. It is, however, certain that marketing costs form a large chunk of the ultimate price paid by the consumer. In developed countries added marketing cost has by and large contributed to an increase in the efficiency of marketing. Correspondingly, in the less developed countries marketing costs are high because of defective and inefficient marketing process. The system obtaining in these countries is inequitable for both the producer and the consumer, who are exploited by the unproductive vested interests who constitute the superfluous intermediaries in most cases.

### **Functions**

The functions of buying (assembling) and selling (distribution) are complementary to each other. The purpose of assembling is to procure goods in quantity and of the variety and quality which the buyers desire. The purpose of selling is to find the buyers to whom goods can be sold at a price acceptable to them while it satisfies the seller also. Pricing is a problem concerned with buying and selling. The price is determined in various ways. Again the prices may vary from buyer to buyer for the same product, and for the same class of buyers prices may vary with the quantity purchased, the place of purchase and the time of payment. The pricing function regulates production and distribution activities and provides direction to future production and marketing activities. Processing, storage and transportation add time and place values to the commodities already produced. They are facilitating functions.

Since marketing concerns decision-making for future, the natural and man-made risks assume special significance in the marketing process. There are specialised agencies which assume these risks at a cost and facilitate the smooth functioning of the marketing system. The distribution channels are an integral part of the marketing system. The goods and the titles to the goods are passed on from the producers to the consumers through the various distribution channels. They also share the marketing costs.

In developing countries the distribution channels are by and large circuitous and wasteful. Hence the distribution costs are relatively higher than their contribution to the efficiency of their marketing system. Thus, all these various marketing functions comprise the process of marketing. They influence the marketing costs and, when added to the cost of production of the commodity to be marketed, constitute the total cost of product at which it is sold to the final consumer.

### **Features of Agricultural Products**

The nature and scope of agricultural marketing has to be understood against the above background. Further, the agricultural dimension confers special characteristic features on marketing of agricultural commodities. The bulky nature of the raw farm produce in relation to its value makes special demands on various activities that constitute parts of the marketing process (for example, special requirements of storage and transport). Agricultural production is also seasonal in character, while the demand from consumers is spread over the whole year. The agricultural marketing system should help to secure a balance between the seasonal flow of produce from the farm and the relatively steady and sustained demand from the consumers. Many farm products arrive at the primary markets in the form of small surpluses which are assembled at the secondary and terminal markets for their final dispersal to the consumers concentrated in the urban areas. The losses on account of leakage, drying and deterioration in quality have to be provided for, or prevented as far as possible,

through some kind of processing and preservation at different stages.

Thus, the broadly described agricultural marketing functions make feasible assembling, preparation for consumption and distribution of agricultural produce in consonance with the special features and requirements of agricultural commodities.

### **Types of Agricultural Markets**

The agricultural markets are broadly classified as :

- (i) Primary market located usually at the village level and meeting weekly or at short fixed intervals.
- (ii) The secondary market which is an assembling wholesale market held daily and which is located at the important block or district level trade centres and
- (iii) Terminal market where the produce is finally assembled for dispersal within the State or for inter-State trade and export trade. It is estimated that in India there are about 22,000 primary markets and 3,400 secondary markets. At times, the sale of agricultural produce takes place at the farm sites and in the village outside the market depending upon the pressures of time and cost especially on the small and marginal farmer.

### **Marketing Activities**

Marketing thus begins at the farmer's field. It consists of such activities as :

- (i) assembling of surplus produce from individual farmers ;
- (ii) transport it to the nearest assembling market ;
- (iii) grading and standardization ;
- (iv) pooling ;
- (v) storage ;
- (vi) processing ;
- (vii) packing ;
- (viii) transport to the consuming markets ;
- (ix) bringing buyer and sellers together ; and
- (x) sale to the ultimate consumer.

All these activities need finance, involve risks due to variation in prices, quantitative losses and deterioration in quality etc. The marketing activities are again conducted at different levels of the marketing system. Marketing of agricultural produce in its raw form is bulky for its value in comparison to many manufactured products. It requires special conditions of storage and transport and these services result in heavy costs, unless they are processed to a sophisticated stage or form. Basically, the seasonal character of supply-and-demand forces makes marketing of agricultural produce very complicated. In a developing country like India the small size of individual marketable lots further adds to the cost of marketing. Especially when agricultural produce is essentially marketed in its raw form the entire marketing process becomes more difficult.

### **Defects and Malpractices in Present System of Agricultural Marketing in India**

Due to certain natural constraints and the weaknesses of the indigenous unorganized institutional structure, agricultural marketing in developing countries suffers from a number of deficiencies and malpractices on the part of the powerful vested interests. The Royal Commission on Agriculture (1928) described these malpractices as "nothing less than theft". Over the years deliberate schemes and machineries have come to be enforced and they have contributed to some improvement in agricultural marketing. Yet the malpractices have not been totally eliminated. A few have reappeared in a different form. The Rural Credit Survey Committee (1954) commented that the newly enforced policies, laws, procedures have not been able to deliver the goods fully as expected and the strong private interests were still able to take undue advantage of the helpless small producers on the one hand and the weak unorganised consumers on the other. Broadly agricultural marketing in a country like India still suffers from some of the following malpractices :

- (i) multiplicity of market charges;
- (ii) unconscionable trade allowances;

- (iii) lack of grading facilities and adulteration;
- (iv) traditional method of sales which is partial to the traders;
- (v) faulty weighment; and
- (vi) late payment of sale proceeds to the farmers.

### **Regulation of Agricultural Markets**

Regulated markets are not established all over the country as yet. It is estimated that there are about 2,500 markets of certain size which can be brought within the purview of regulation. Yet only about 2,000 have come to be regulated by now. Even in these regulated markets the extension of regulation appears to be restricted to some of the few dominant agricultural commodities like select foodgrains, oilseeds, cotton, etc. Even the efficiency of regulated markets is by and large not up to the mark, due to under-qualified management and personnel. These are also not adequately equipped with the requisite facilities and amenities that are necessary for efficient and just marketing activities. Externally also they are not well connected with the assigned market area due to lack of proper infrastructural facilities. That is how the domination of a high proportion of village sales gets explained under the Indian agricultural marketing conditions.

### **Beneficiaries of Development**

Granting for a while that some of the improvements have taken place over the years in the agricultural marketing system, it has essentially also benefited the larger farmers who have better means and more knowledge to derive advantage out of whatever improved marketing system that is available. The small farmers have not benefited much from these, mainly because of their illiteracy and lack of communication with the trends in markets. Their economic weaknesses also adversely affect their capacity to hold on in the market for a favourable turn in price situation. They are also cheated and misled at the local markets by the village merchants and other powerful vested interests.

## Cooperative Marketing

The ultimate solution, perhaps lies in the emergence of a highly integrated and efficiently managed and effectively operating cooperative marketing system in the country. The success of marketing cooperatives will depend upon their capacity to eliminate defects and malpractices in marketing to the advantage of their farmer members, and accepting for themselves reasonable consumer-oriented philosophy and policies. Thus, farmers are encouraged under such conditions to organize a primary cooperative marketing society at the assembling market point with the main object of marketing their produce to their best advantage and for this purpose to rationalize the whole process of movement of produce to the consuming markets. This institutionalized approach to marketing through cooperation ensures for the beneficiary farmer members a larger share in consumer price through provision of a variety of services such as pledge finance to improve their holding power against properly stored agricultural commodities.

A cooperative society as is well known is owned and managed by the farmers themselves and for themselves. There are a number of examples of countries having highly developed cooperative marketing in the agricultural sector. The U.S.A., and Canada are among the countries which can boast of highly developed agricultural marketing cooperatives. For developing countries, in view of the dominance of the agricultural sector, a cooperative marketing system is recommended.

Marketing is a powerful multiplier of development and cooperative marketing further ensures benefits to the relatively weak but properly organized farmers, on their own terms, as far as possible. Thus, cooperative marketing is required not merely to eliminate malpractices from which the farmers suffer but also to reduce the price spread between the producer and consumer without adversely affecting the interests of the consumers. What is retained for the farmer members is a larger share in the consumer price in the prevailing market situation. As observed by the

Food and Agriculture Organization of the United Nations, "A cooperative, by bargaining for all its members, can exert more control over the prices of their produce and can thus, offset monopolistic power in the hands of the buyers and obtain advantages not attainable if individual members sell independently (Marketing Problems and Improvement Programmes, 1958, F A.O. UNP. 132). The Cooperative Planning Committee (1945) also appropriately observed as follows about cooperative marketing : "Cooperative marketing organization teaches the farmers that agriculture is primarily a form of business—that the problem of marketing is closely related to the problem of production—the demand for agricultural products is increased by improvement in production methods."

If we take a survey of development in cooperative marketing and processing in India, we have necessarily to date it from the commencement of the Second Five-Year Plan. It is not that during the earlier period cooperative marketing and processing societies were non-existent. Cooperative cotton sales societies from Gujarat and marketing societies for jaggery, banana etc. from Maharashtra successfully functioned even during the pre-independence period. There must be a few other exceptional cases in other parts of the country as well. Their successful operation was largely due to the awareness and foresight shown by the local leadership. In few cases (like the then Bombay Provincial Cooperative Bank), the initiative was shown by even cooperative banking organizations in organizing cooperative sales and purchase activities in certain areas even through their own departments for a while. Subsequently, these operations were handed over to independent cooperative sale-purchase unions. But, as stated earlier, the attempts were sporadic in nature and not necessarily as a part of any organized plan on an integrated basis and with a perspective.

### **The Planned Era**

A planned approach towards cooperative marketing and processing for their integrated development, as stated earlier, was

accepted by the country from the Second Five-Year Plan, under the policy guidelines recommended by the Committee of Experts of All-India Rural Credit Survey (1954). The importance of cooperative marketing was realized in the old States of Bombay and Madras where the Crop Loan or Full Finance Scheme was already in vogue. Later this scheme was extended to the entire country under the All-India Rural Credit Survey Committee recommendations, when we find a deliberate endeavour being made for the organization of marketing and processing on cooperative lines. By 1982 it was estimated that cooperatives' share in agricultural trade of the country had gone up to 8 to 10 per cent. All the *mandis* (primary markets) in the country were covered by the 3,592 primary marketing societies of which 600 were organized on a commodity basis. In addition, there were 173 Central or Regional level marketing societies and one National and 29 State level marketing federations (including two inter-State level federations and seven State level commodity federations). A substantial number of marketing societies had State partnership in their share capital. About 77 per cent primary marketing societies had, on an average, 67 per cent of the share capital, 52 per cent of the Regional marketing societies had 45 per cent, and 22 out of 25 apex federations had about 89 per cent of the share capital owned by the State. The strength of the marketing societies can be also measured quantitatively from the point of view of affiliation of the village service societies. On an average, 78 per cent of the village societies have been affiliated to the marketing societies in the country. This percentage again varies from State to State.

### **The Structure**

The structure of cooperative marketing in India follows the usual pyramid structure with the National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) at the national level, the State cooperative marketing federations at the state level and the primary marketing cooperative societies at the primary market level. This is the federal pattern of organization. However, it is not uniformly found in all the states of India. In



Assam, Bihar, Kerala, Madhya Pradesh, Karnataka, Orissa, Rajasthan, Maharashtra and West Bengal the federal structure is a two-tier one—primary marketing cooperative at the primary market level and the state marketing federation at the state level. In the States of Andhra Pradesh, Punjab and Uttar Pradesh the pattern is a three-tier-one—the central district marketing society intervenes between the primary and the State cooperative marketing organizations. The number of cooperative marketing societies functioning at different levels of the Indian cooperative marketing structure has already been indicated earlier.

The Committee on Cooperative Marketing (1966) had recommended a two-tier structure for cooperative marketing societies functioning within the States of the Indian Union. Since, by and large, at the district/regional level, agricultural markets were not located, a cooperative marketing society at this level is generally found redundant. Its functions overlap with those of the primary marketing societies, and its existence mostly had added to the cost of marketing, apart from the delay involved in decision-making and execution. Exceptionally, where the regional marketing cooperatives were coincidentally located at the market centres, these have not been disturbed as they are functioning efficiently and usefully.

Thus, the Indian cooperative marketing structure is formally complete. If at all, new marketing societies would be organised only at newly developing market centres in the course of implementation of the development plans. The main emphasis in the Sixth Five-Year Plan is on the need to consolidate and strengthen the existing cooperative marketing structure in India.

### **Functions**

A primary cooperative marketing society is usually expected to perform the following functions :

- (i) Arrangement for the sale of agricultural produce of the member or purchased by the society and for this purpose preparing

the produce for markets by grading, packing, storage, transportation etc.

- (ii) Arrangement for providing marketing finance to members against the pledge of their produce in the society's godown.
- (iii) Arrangement for supply of agricultural inputs like fertilizers, insecticides, pesticides, seeds, agricultural equipment etc.
- (iv) Distribution of essential consumer goods to members at fair price.
- (v) Arrangement for processing of produce belonging to the members or purchased by the society, to the extent possible.
- (vi) Acting as the agent for the Government for the procurement of agricultural produce from members and supply of agricultural requisites as also the essential consumer goods in rural areas to members.
- (vii) Raising resources by way of deposits from members and loans for the purpose of conducting various business activities.

It also acts as the agent of the members' credit cooperative society for the recovery of its production loans. Recoveries are directly paid into their account with the primary service society/D.C.C. Bank.

In actual practice, however, a majority of the primary marketing societies have confined their operations to supply business and procurement operations on behalf of the State Government concerned. Very few societies have their own processing units. Similarly, only a few societies advance pledge loans to members for want of adequate and scientific storage facilities as also financial resources to conduct this operation. Similarly, about 30 to 40 percent primary marketing cooperatives are seen engaged in commission business. Suggestions have been made from time to time to these societies to conduct trade on commission basis because it is their primary function as a cooperative trader (which is intended to replace the exploitative village level trader).

As stated earlier, a district/regional marketing cooperative society, wherever it has been existing, is expected to coordinate

the functions of the member primary cooperative marketing societies in its area of operation, to enable them to perform above mentioned functions. It is also expected to provide them the necessary strength, support and guidance of all kinds to enable them to conduct their business activities effectively by undertaking processing on a larger scale, carrying inter-district trade and providing agricultural inputs and consumer goods on the basis of periodical indents on fair and reasonable terms. As stated earlier, in many areas, because of their financial and operational weaknesses, particularly due to wrong location, district marketing cooperatives have been found unnecessary and, therefore, these are gradually being weeded out.

The State Cooperative Marketing Federation is the apex body of the state cooperative marketing structure. This federation conducts inter-state and export trade of agricultural produce on behalf of the affiliated marketing cooperatives within the state which is the area of operation. It also undertakes large scale procurement of various agricultural inputs and consumer essentials for supply to the member marketing societies on the basis of their indents. Large scale processing activity is also undertaken by many state cooperative marketing federations for the agricultural produce brought to it for the purpose. In addition, dissemination of market intelligence and provision of expert guidance on all problems affecting member societies are some other functions of this apex federation. It also represents to the state government the interests of the member marketing societies and the farmers at large. It is true that all the state cooperative marketing federations are not uniformly developed and strong enough to undertake all expected functions due to variation in natural conditions the policies of the respective state governments and managerial deficiencies and weaknesses. All the same, they command relatively more men, money and material and should be able to provide leadership in the state cooperative marketing sector through coordination, guidance, supervision etc.

The National Agricultural Cooperative Marketing Federation of India is the apex body of all the State-level marketing federa-

tions. It is registered under the Multi-unit Cooperative Societies Act and its functions are similar to those of a State-level federation, except that these are performed at the request of the State-level Federations and when they find them to be beyond their capacities.

There is yet no clearly laid down policy as to whether at different levels separate commodity cooperative marketing organizations should be set up or not. The decision is usually guided by such factors as the size of the marketable surplus, viability of the organization, felt need of the farmers/their commodity cooperatives etc. The general purpose marketing societies predominate in the Indian cooperative marketing structure as they are located mostly in multi-crop areas. The general policy guideline with regard to the cooperative marketing structure has been to secure integrated business activities, without any unhealthy competition or conflict or duplication of functions among themselves. Higher level federations are expected to support and strengthen their member societies down below and ultimately the village-level primary cooperative and the farmer members at the base level. The endeavour is to minimize marketing costs in totality, to ensure higher margins to member cooperatives, and a larger share in consumer price to the ultimate agriculturists.

## QUANTITATIVE PROGRESS

In terms of business, the goods handled by the cooperative marketing sector were valued at Rs. 19,500 million (1980-81). This consisted of Rs. 5,000 million in foodgrains, Rs. 5,800 million in sugarcane and Rs. 8,700 million in other cash crops. As much as 75 percent of this business was found to be concentrated in the States of Maharashtra, Uttar Pradesh, Punjab and Gujarat. The inter-State trade of the order of Rs. 800 million in wheat, pulses, copra, spices, plantation crops, fruits and vegetables was also conducted by cooperatives. And Rs. 500 million worth of chillies, pulses, onions, pepper, deoiled cake, potatoes etc. were exported through cooperatives to different countries of the world. Rs. 9,250 million worth of production requisites were supplied by the market-

ing cooperatives to agriculturists. Consumer goods of the order of Rs. 5,000 million were reported to be sold through them in rural areas. Their storage capacity had also gone up to 4.4 million tonnes over the period. Quantitatively, this progress would appear to be quite satisfactory when it is seen against the period of, say, 30 years. However, qualitatively, it must be accepted that the achievements have not been upto expectations, particularly, when a sizeable quantum of credit at concessional rate is made available to the agricultural sector through cooperatives. It was reported that 30 per cent of the marketing societies were not doing marketing. The percentage of linking of credit with marketing was also at a low level of 17 and that too mostly secured through sugar processing societies where an inbuilt arrangement exists. Now it is realized that an extensive revitalization programme for cooperative marketing is necessary. Perhaps, a second look at the cooperative marketing structure would be necessary, which may necessitate even an increase in the size and area of operation at the primary marketing societies level, in view of the increased cost of management and operations. The time has come to consolidate the gains already made before we set on new and ambitious targets. The norms of viability for a primary marketing society is suggested at Rs. 6 million on business account (in 1966 it was Rs. 3 million). In 1978, only about 1,000 primary marketing cooperatives had business between Rs. 500,000 and Rs 1 million. Fifty per cent of these cooperatives were in profit and 30 per cent in losses. Government percentage in share capital, on an average, was as high as 80 per cent.

## **BUSINESS OPERATIONS**

A marketing cooperative society usually engages in the following operations :

### **Commission Business**

These operations are legitimately organized by the marketing societies. It is the endeavour of the marketing societies to cover almost all the needs of the members/organizations in these respects.

However, it is true that the marketing societies have not adequately developed competence to satisfy all members' requirements. Their nature of business is generally lopsided. Even the relatively better organized primary marketing societies at the primary market level appear to be complacent about their activities which are mostly limited to simple commission business. Although commission business is a genuine marketing activity, it does not solve the basic problem of the agriculturists because the produce is still sold to the local trader and benefits which otherwise would accrue to the producer on a larger scale if the marketing societies were to process the produce and/or arrange it to send it to better markets through their federations elsewhere, are not available.

### **Supply of Inputs**

By and large the marketing societies are seen doing this business. Till 1969 they had monopoly for distribution of fertilizers, the marketing societies have to arrange for procurement and supplies of fertilizers under competitive conditions. The cooperatives are handling 60 per cent of the total fertilizer consumption in India. In regard to supply of insecticides, pesticides, quality seeds and equipment the marketing societies have to pay more attention. Thus, operations relating to supply of production inputs are threatened under the changed conditions. Here, it is necessary to emphasize the need for well-organised publicity, propaganda and extension work on the part of the NAFED, the State federations and the relatively strong regional marketing societies wherever existing. The potential for business is great but the new techniques of marketing have to be adopted by the cooperative marketing structure. It would mean recruiting qualified staff at appropriate levels and provision of training facilities to equip them better for duties in the field. This also means accepting the principle of separating direction from execution. While the Board of Management takes policy decisions, their implementation must be left to the executives of the marketing organization.

## **Procurement Operations**

A substantial part of the revenue receipts of Indian cooperative marketing organizations today is from procurement operations which are conducted on behalf of the respective State Government or as sub-agents of the Food Corporation of India or State Civil Supplies Corporation (in certain States).

Whether it is monopoly procurement or levy system, the cooperative marketing societies have been able to earn something for themselves. It must, however, be understood clearly that procurement business on behalf of the Government or the public sector corporation may not be a permanent activity and the sole dependence on this operation will not be in the interest of marketing societies, however safe this business appears to be today. Even this business is not without problems in the absence of uniform policies in various States. For example, in some States the marketing societies operating at all levels within the State are working as sub-agents of the Food Corporation of India side by side with the private agencies. Reports of discrimination between these agencies are not uncommon. Under such conditions the marketing societies have not been able to offer any particular service in a satisfactory manner to their members with the result that it is not going to help the societies to build up loyal membership on a progressively increasing scale as also business with them in years to come. It is time that the schemes of procurement and the procedures are properly rationalized keeping in view the accepted policies regarding development of cooperative marketing through a well-integrated structure as also in regard to the relations that should subsist between the cooperatives and the public sector agencies.

## **Cooperative Processing**

Here we are considering the processing activity to be carried on by the marketing society as an adjunct of its main business. Thus, where block capital investment is manageable and where it

is possible for the marketing society to take to processing on its own, of produce brought to it by its members, it is recommended that the marketing societies should take up such activity as far as possible. Paddy, groundnut, fruits and vegetables, cotton, etc. permit organization of processing side by side their marketing by the agricultural marketing societies. Combining marketing with processing would surely enable the marketing societies to take advantage of better marketing conditions by either selling it as raw material or as processed product. However, this requires an efficient and a broad-based organization. It also means organisation of extension facilities upto the farm level. Wherever this has been possible marketing societies have been able to confer substantial benefits to the members. The cotton sale societies in Gujarat are an instance in point. But where (for example, in the case of groundnut) marketing and processing have not been conventionally integrated, we find that the societies have not been able to build up business and loyalty of their members because of wide fluctuations in the prices of agricultural commodities and their by-products.

In order to enable the societies to take to processing on modern lines, it is necessary also to increase the size of the organization which will enable it to cover a wider area and a more developed and diversified business in commodity marketing. Here, again, the State and national level federations would have to provide support to the existing commodity marketing societies both, in the form of finance and technical assistance. The provision of such assistance will surely bring the marketing societies closer to their federations. The development in this direction has been slow in India due to factors mentioned earlier.

### **Distribution of Consumer Goods in Rural Areas**

As to distribution of consumer goods in rural areas, the marketing societies have been accepted as an agency for the purpose, in the absence of the feasibility of organizing a separate viable consumer cooperative structure in these areas. All along,



the marketing societies have been distributing the controlled commodities through the primary service societies to the villagers such as sugar, kerosene, cloth etc. With the lifting of controls, this business of marketing societies is getting reduced. It is, therefore, felt that the approach to such type of business needs to be modified. It is accepted that there is need and scope to provide even a large number of consumer articles (non-controlled) in rural areas and marketing societies can develop sizeable business in these articles in the interests of the members at the village level through the primary service societies. In foreign countries also, it is common for the marketing societies to have a separate consumer goods department within the organization for this very purpose. This is, as has been stated earlier, with a view to covering almost all the requirements of the members of the organization. As the policy goes, the marketing societies have to be the members of the urban wholesale cooperative stores which, in turn, procure the requirements through their State federations. This arrangement needs to be strengthened as it will not only benefit the marketing organizations but the consumer cooperative structure in the State also. Agricultural produce of members can similarly be sold to urban consumer cooperatives in return, leading to profitable inter-cooperative trade.

## **OUTRIGHT PURCHASE**

Outright purchase is not a fully cooperative marketing operation. All the same, as recommended by the Mehta Committee on Cooperative Credit, in the interest of producers with a small surplus, the marketing societies are permitted to buy it outright from them. This has been with a view to weaning away the small producer from the local trader. The services of the village primary society is availed of for this purpose. In order to meet the risks involved in outright purchase operations, a specific price fluctuation fund is built up at the marketing societies' level.

This arrangement at the primary level is quite understandable and if it is further supported by processing as indicated earlier, ordinarily there would not be much risk involved. However, in

practice, the outright purchase operations are not scientifically organized by the marketing societies, and marketing society assumes risks unreasonably. Outright purchases by the marketing society also needs a qualified and trained manager who has the necessary authority delegated to him for the purpose. It is necessary to keep these outright purchase operations within safe limits and under the guidance of the State federation. The State federation, in turn, should provide the necessary services required by the marketing society concerned and should, wherever possible, integrate such operations with its own business. The same link can be extended, wherever possible to the national level. The tendency of making purchases independently on outright basis and from open market from farmers is obviously undesirable. It is observed that in many cases and in many areas the policies underlining these operations are not clear to the members and their organizations as well. Organization of effective education and training programmes can minimize risks in this business operation.

### **Exports of Agricultural Commodities by Cooperatives**

Cooperatives in India have been in the export trade for over two decades. The cooperatives participating in the export effort are the Federations of Kerala, Tamil Nadu, Punjab, Haryana and Maharashtra and the National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED). The items exported are HPS groundnut, sesame seed, nigerseed, extraction meal, onions, potatoes, rice, barley, spices (cardamom large, chillies, turmeric) and processed foods. The total value of exports was around Rs. 10,000 million (1980). The itemwise exports may be seen in the table shown on pages 36 & 37.

In addition, the exports by the State Cooperative Marketing Federations directly by themselves account for around Rs. 250 million annually.

### **OTHER SERVICES**

Among various other services which a marketing organization is offering mention may be made of storage and transport facilities.

Today, assistance is available to marketing societies for construction of godowns as also for the purchase of transport vehicles. A good many societies have availed themselves of the assistance available from the National Cooperative Development Corporation for the purpose. There is definite need and scope for organizing these services and larger number of marketing cooperatives should take advantage of the schemes offered to them in this sector.

Over the years of planning and development, there have emerged public sector business organizations in the Indian economy. The basic objectives of building up a public sector in the country have been socio-economic. In the marketing sector also many such State trading organizations have been set up for cotton, jute, foodgrains, general trade, warehousing, etc. They have been now operating side by side with cooperative marketing organizations. According to the accepted policies with a view to encouraging the institutionalization process at the rural level, in particular, cooperative marketing organizations have been envisaged and the public sector trading organizations are intended to support the cooperative institutions and not come into conflict with them. While declared, the policy of coordination and collaboration has been accepted by the public sector trading organization, in actual practice in many areas, necessarily, this spirit is not seen. This may be a transitional phase. In due course, it is hoped, a strong cooperative marketing sector would emerge with the support and encouragement of the public trading organization in the economy which will contribute to elimination of the exploitative vested interests in the field of agricultural marketing and in the process would do justice to both the producers' interests and consumers' interests.

## PERSONNEL

Various operations expected to be organized by the marketing societies cannot be organized without having sufficiently qualified and trained staff. In the face of expansion going on in the various sectors of the economy in the country, it is becoming difficult to

Value of Exports by Cooperatives

Commodity	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
1. Pulses	Q 3540	1135	445	—	—	—
	V 130.62	32.29	13.16	—	—	—
2. Onion	Q 140474	40089	118851	107719	173632	159250
	V 1828.93	882.13	1551.30	1536.06	2595.14	25.15
3. Potatoes	Q 16957	213.30	21609	5152	26	—
	V 134.36	1.30	194.53	41.13	0.65	—
4. Niger Seed	Q —	120	7300	6574	6762	8871
	V —	9.60	629.65	509.00	499.00	9.28
5. Sesame Seed	Q —	—	10000	9774	1000	—
	V —	—	517.00	717.00	65.00	—
6. HPS Groundnut	Q —	—	18000	16770	51496	22218
	V —	—	1120.61	1053.00	5839.00	25.42
7. Extraction Meal	Q —	—	35250	43518	43921	—
	V —	—	320.40	772	639	—
8. Garlic	Q —	—	50	—	6	—
	V —	—	2.25	—	0.10	—

1	2	3	4	5	6	7	8
9. Cardamom (Large)	Q	90	—	187	—	7	—
	V	11.09	0.84	40.69	—	1.27	—
10. Chillies	Q	2	65	—	—	20	—
	V	0.17	5.20	—	—	1.54	—
11. Turmeric	Q	25	35	—	—	117	—
	V	1.77	2.70	—	—	5.40	—
12. Rice	Q	—	—	—	—	74391	—
	V	—	—	—	—	1895.20	—
13. Barley	Q	2900	—	—	—	9320	12000
	V	31.42	—	—	—	175.40	2.11
14. Others	Q	—	—	11900	—	1.55	—
	V	7.70	10.81	897.5	—	—	0.11
15. Total	Q	—	—	—	—	—	—
	V	2146.06	944.87	5287.10	4573.57	117.18	—

Q=Quantity in tonnes

V=Value Rs. in 100,000

## COMMODITIES HANDLED BY THE COOPERATIVE MARKETING SOCIETIES IN INDIA

Year	Rs. (in million)						Total Rs.	
	Foodgrains	Sugarcane	Cotton	Oil seeds	Plantation crop	Fruit		Others
1977-78	3,840	6,300	1,510	330	930	270	850	14,030
1978-79	4,900	5,540	4,620	580	1,080	130	1,120	17,970
1979-80	5,000	5,100	4,400	700	1,240	260	1,300	18,000
1980-81	5,000	5,800	5,300	700	1,250	280	1,170	19,500

Source: NCDC annual report 1980-81.

attract the necessary talent to the cooperative sector in competition with other organizations. The capacity of the cooperative marketing organizations to pay attractive salaries and allowances is obviously limited but it is equally true that without efficient personnel it would be difficult for the marketing structure to properly organize marketing business which is becoming more and more complex and competitive. The idea of having common cadres at the State level for the member marketing societies was specifically meant to overcome this problem. Unfortunately, the response from the member organizations has not been adequate. A basically good scheme such as this, has still not been able to strike its roots in order to make a favourable impact on the cooperative marketing structure. It is necessary to give top priority to its implementation, in both spirit and letter without loss of time. Similarly, there is a scheme pertaining to promotional and assessment cells for locating at the State marketing federation's level. The cell consists of experts in 19 fields of activities. For a period of five years initially the National Cooperative Development Corporation provides subsidy which is reduced on a tapering basis. Eventually the federation has to manage the cell. This scheme was sponsored in the year 1964 but has not received full support so far for a variety of reasons.

To conclude, there is an urgent need and scope for the existing cooperative marketing structure within the country to undertake various operations expected of a marketing cooperative organization. Whatever the policies and programmes that are to be conceived at the federation's level (whether State or national) their end objective must be to confer more and more benefits on the cultivators at the farm level through their cooperatives.

## Particulars of Marketing Societies in India

1. No. of Primary Marketing Societies	...	3592
2. No. of Commodity Marketing Societies	...	600
3. Percentage of State Partnered Marketing Societies*	...	76%
4. District level marketing societies	...	173
5. State-level Marketing Societies	...	26
6. State-level Commodity Marketing	...	6
7. Inter-State Federal Cooperative Marketing Societies	...	2
8. National Cooperative Marketing Federation	...	1
9. Value of agricultural produce marketed (Rs. million)	...	19,500
10. Value of retail distribution of production requisites (Rs. million)	...	11,080
11. Value of retail distribution of Consumer goods (Rs. million)	...	5,000
12. Storage capacity of marketing Societies	...	4,350,000 tonnes

\* 2370 Cooperatives were State partnered.



# KOREA

Soo-Il Lee\*

**H**ISTORICALLY, Korea is an agrarian society. Even until recent years, the traditional value of "farming as the basic foundation of the nation" had predominated among the people. Accordingly, development of other sectors in the national economy had been very primitive until the beginning of 1960s.

The situation has changed significantly for the last two decades. The rapid growth of overall national economy has been largely attributed to the remarkable growth in non-agricultural sectors. The output of the secondary and tertiary sectors have grown at an average annual rate of 15.9 per cent and 9.1 per cent respectively, since 1962. The agricultural sector has relatively lagged behind in its growth rate compared to other sectors.

The rapid growth of non-agricultural sectors has encouraged population migration from rural to urban areas. As of the end of 1981, the rural population was 10, million persons representing 25.8 per cent of the total population compared to 58 per cent in 1962. It showed a decreasing trend in absolute terms from 16 million in 1967.

The area of arable land in 1981 stood at 2,188,000 *ha*, a decrease of 4.5 per cent from 1970. Thus, the share of cultivated land in the total national land area represents 22.2 per cent. The total arable land in 1981 consisted of 1,308,000 *ha* of paddy fields and 880,000 *ha* of upland.

Crop production accounts for about 80 per cent of the total value of the agricultural output and the remaining 20 per cent comes from animal products. Of the different crops produced,

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\**Manager, Marketing Research Division, National Agricultural Cooperative Federation, Seoul*

rice is the most important in terms of acreage and production. It occupies about 45 per cent of the total utilized land area. The next important crop is barley, followed by vegetables and pulses.

The general appearance of the marketing structure of farm products in Korea seems to be more complicated than that of industrial goods. Several intermediaries are involved in different marketing stages from the farm gate to the final consumer. It is mainly due to the intrinsic characteristics of agricultural products including small scale production and consumption that there is a degree of heterogeneity in quality produced and diversity of possible uses.

In rural areas, farmers have diversified access to market outlets such as rural periodic markets, primary agricultural cooperatives and private traders including local assemblers, shipping agents, etc. In addition to those marketing organizations in producing areas, the government also purchases rice, barley and some other products.

Farm products from the producing areas are forwarded to the wholesale markets in the urban centres for delivery to the final consumers. The central wholesale markets (legal and quasi) and cooperative marketing centres of the National Agricultural Cooperative Federation (NACF) perform the wholesale function. The National Livestock Cooperatives Federation (NLCF) operates its own marketing centres for wholesaling of livestock products.

At the retail stage, diversified organizations such as conventional retail shops, cooperative retail shops, supermarkets and chain stores conduct the function of distribution of commodities to the final consumers.

Even though the number of modernized retail institutions has been on the increase recently, a majority of the agricultural products are distributed through various types of traditional retailers such as grain stores, meat stores and fruits and vegetable stores.

Marketing Channels for Food Grains

Figure : 1

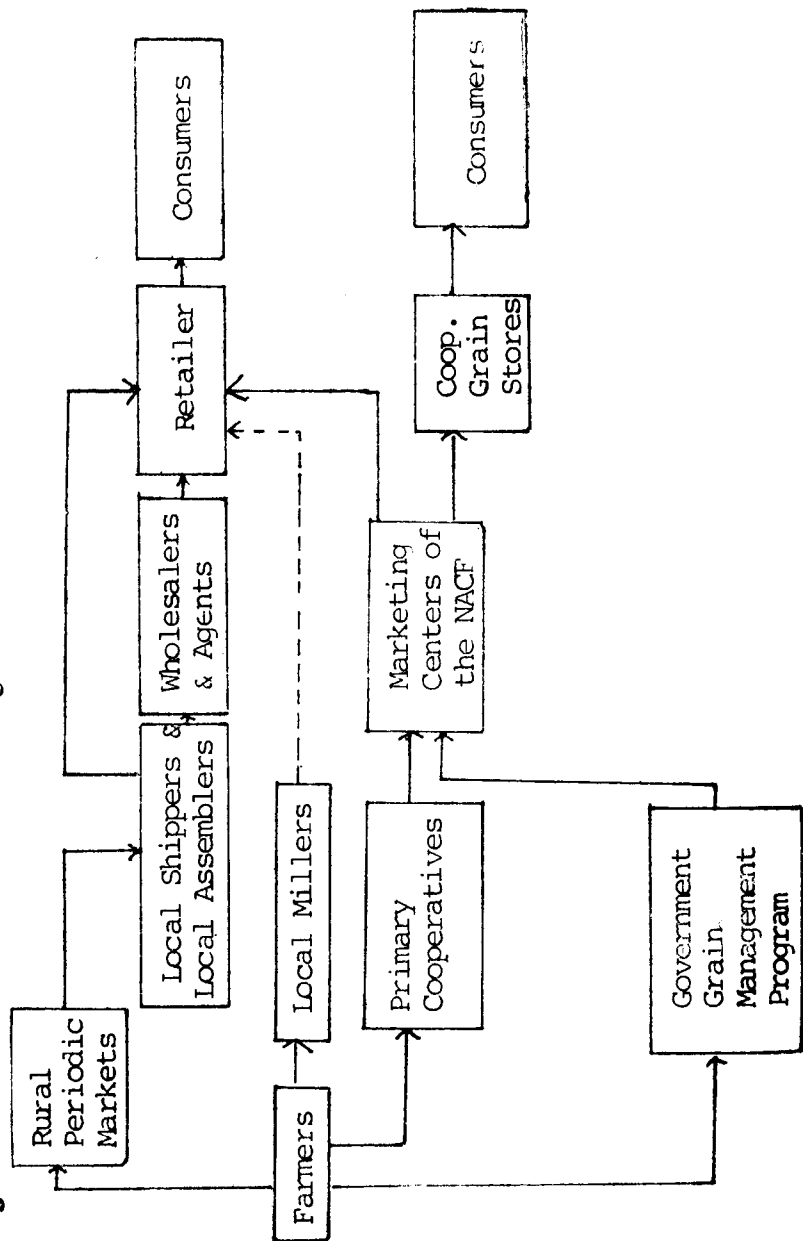
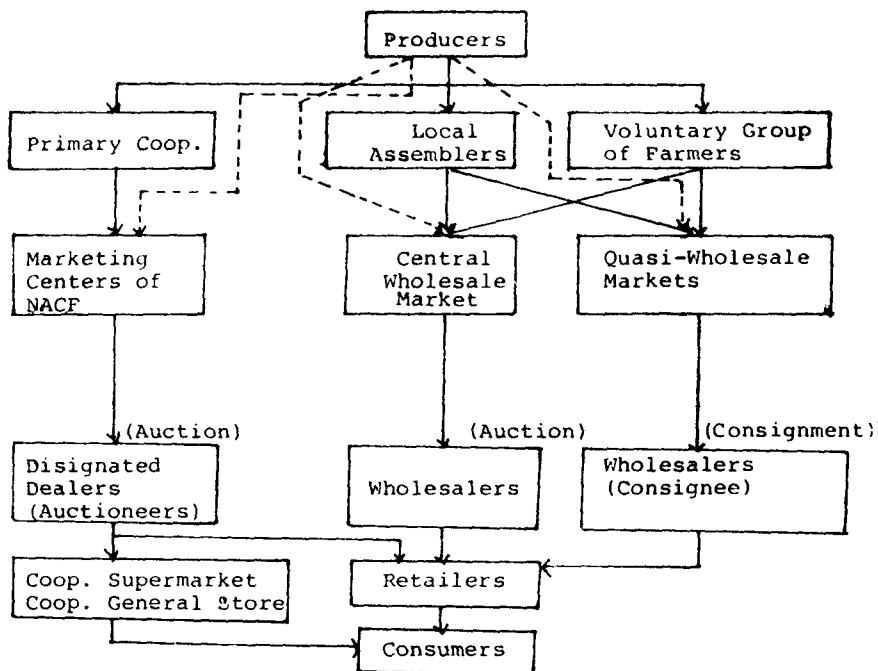


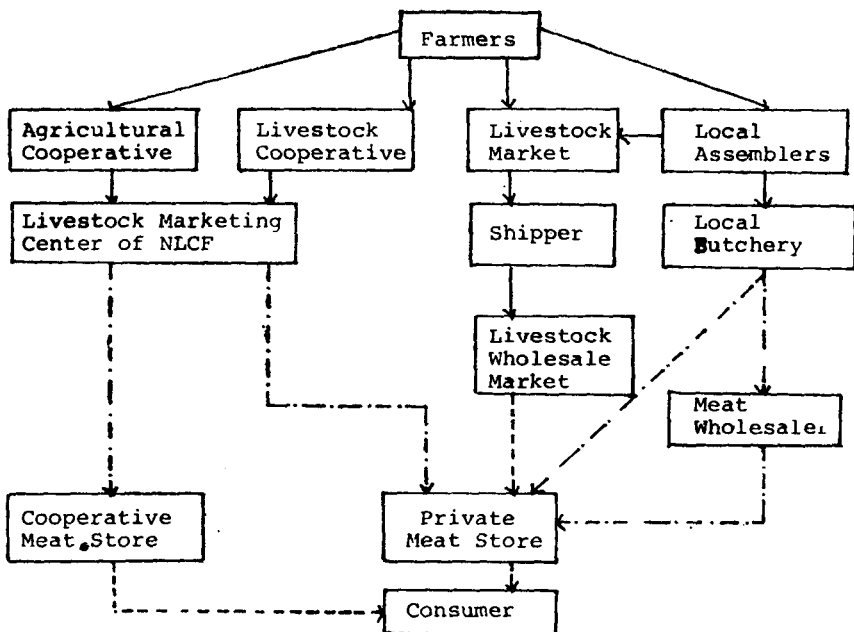
Figure 2 :

### Marketing Channels for Fruits and Vegetables



Figures : 3

Livestock and Meat Marketing Channel



reference

- ; flow of live animals
- .-→; flow of carcass
- .-.-→; flow of meat

## **Evolution in Agricultural Cooperative System**

### **1. ORGANIZATIONAL STRUCTURE**

The present multipurpose agricultural cooperatives in Korea were established on the basis of modern cooperative principles by merging the Korean Agriculture Bank with the former agricultural cooperatives in accordance with the Agricultural Cooperative Law enacted in 1961.

Accordingly the National Agricultural Cooperative Federation was inaugurated on August 15, 1961, together with its member agricultural cooperatives.

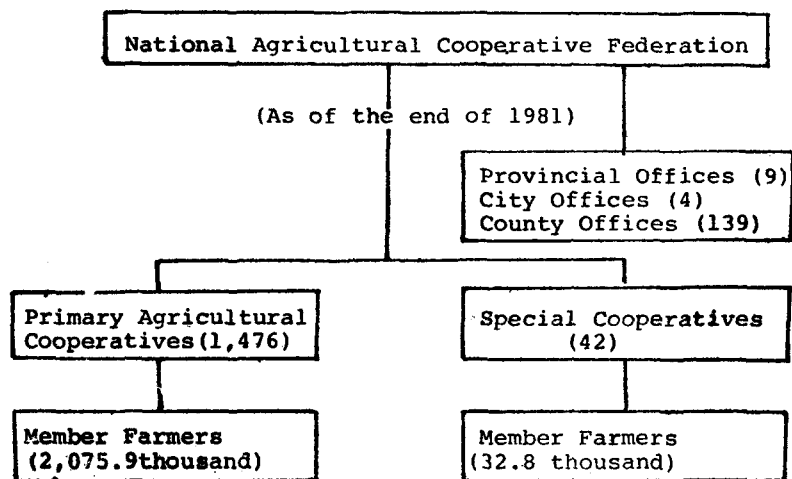
Agricultural cooperatives in Korea were vertically organized at three levels until 1980; primary cooperatives at the township level, county or city cooperatives at the county or city level, and an apex organization at the national level. Horizontally, they were classified into multipurpose cooperatives and special cooperatives.

As of the end of 1980, there were 1,485 primary cooperatives, 140 county or city cooperatives and 142 special cooperatives under the NACF as the three-tier organization.

The three-tier structure of agricultural cooperatives has been reformed into two-tier structure since January 1, 1981 based on the revised Agricultural Cooperative Law and the Livestock Cooperative Law promulgated at the end of 1980. As a result, the county or city agricultural cooperatives were transformed into the county or city offices of the NACF, while the livestock cooperatives among special cooperatives were affiliated with the National Livestock Cooperatives Federation.

The members of the NACF, therefore, have been composed of primary agricultural cooperatives and horticultural cooperatives since 1981. The primary agricultural cooperatives were organized by individual farmers who were primarily engaged in the production of major grain crops such as rice and barley. The special cooperatives were established among the farmers producing horticultural products.

The Livestock cooperatives, which were inaugurated on January 1, 1981, are largely classified into local cooperatives and specialized cooperatives. The National Livestock Cooperatives Federation was composed of 100 local cooperatives and 8 specialized cooperatives.



## 2. OBJECTIVES AND RULES

As the farmers' voluntary organizations established on the basis of the spirit of mutual help, the agricultural cooperatives have mainly aimed not only at strengthening their economic activities but also at elevating their living standards.

The objectives of agricultural cooperatives consist in the increase of agricultural productivity, improvement of social and economic status of member farmers, and assurance of balanced development of the national economy. In accordance with the objectives, the NACF and agricultural cooperatives have played various roles through the performance of their wide range of businesses and activities.

The types of their business and activity are classified into marketing, banking, purchasing, cooperative insurance, utilization,

processing, farm guidance, education and public information, and research. The businesses of the NACF and its member cooperatives have been performed in line with the government policy measures concerning the agricultural development plan as well as in relation to the overall economic activities of farm households.

The NACF and its member cooperatives have functioned as the agricultural banking institutions handling finance to meet the demand for agricultural fund. Through the banking business, the fund has been mobilized and operated for the development of agriculture as well as for the economic improvement of farm households.

The efficient distribution of farm input such as chemical fertilizer, pesticide, agricultural machinery and other production materials through the channels of agricultural cooperatives have played a role in augmenting agricultural output as well as enhancing farmers' income.

In particular, the supply of consumer goods through the distribution centres of the NACF and the cooperative chain stores of primary cooperatives have taken a leading role not only in the reduction of the retail prices in rural market, but also in the rationalization of rural people's consumption life.

With marketing business, the NACF and its member cooperatives have improved the marketing system of agricultural produce for the benefits of both farmers and consumers. The function of cooperative marketing has been performed through the overall marketing strategy such as grading, packaging, inspection, labelling, advertisement and marketing information.

Through warehousing and transporting, the agricultural cooperatives have exercised their function not only in the stabilization of agricultural markets but also in the timely supply of both agricultural production inputs and consumer goods.

With the handling of cooperative insurance as part of social welfare service, agricultural cooperatives provide member farmers with safeguards against their unexpected accidents like sickness



and death, and loss of property from a sudden outbreak of fire or other unforeseen calamities.

The education and training programmes of agricultural co-operatives together with the NACF have contributed to fostering youth who will develop agriculture and to accelerating the establishment of well-being of rural community. The activities for education and information have inculcated advanced knowledge and technology of agriculture among the member farmers.

### **Marketing Activities of Agricultural Cooperatives**

#### **1. ROLE OF AGRICULTURAL COOPERATIVES IN MARKETING**

Individual farmers are typically at a disadvantageous position in selling their products to the markets where merchants predominate in negotiations over farmers with sophisticated dealing practices, experiences and capital.

Therefore, the role of agricultural cooperatives is greatly emphasized for the benefit of not only farmers but also urban consumers. Through group bargaining and economy of scale, the agricultural cooperatives have tried to enhance the prices received by farmers and to stabilize consumer prices by reducing costs and margins, eliminating unnecessary middlemen and keeping fair trade practices.

To strengthen the role of agricultural cooperatives, group shipping and bargaining through cooperative system have been encouraged and farm guidance activities for orderly marketing in order to avoid an abrupt price fall after harvest have been explored by adjusting shipments of farm products to the markets. In addition, agricultural cooperatives also conduct such marketing functions as grading and inspection, packaging, storage, transportation and marketing information services with varied marketing facilities and establishments.

Cooperative marketing to enhance farmers' income by reducing costs and margins and by increasing bargaining power has been

successful enough to convince member farmers that it is beneficial to increase their marketing volume through cooperative channel.

## 2. TRENDS OF COOPERATIVE MARKETING BUSINESS

The NACF and its member cooperatives have carried out marketing business through their marketing facilities including agricultural cooperative marketing centres in order to extend benefits not only to agricultural producers but also to consumers of agricultural commodities. The marketing business is classified into two categories : the marketing activities conducted by the plan of the NACF and the farm products sale under their own programme of member cooperatives.

The marketing business by the NACF includes the sale of agricultural produce through its cooperative marketing centres, the sale of raw materials to processors, the supply of agricultural produce to Korean military forces, and the export of agricultural commodities. The cooperative marketing centres of the NACF were established in six major cities of Seoul, Busan, Daegu, Gwangju, Incheon, and Daejeon.

Thanks to the diversified efforts to improve cooperative marketing the total value of farm products merchandized by the NACF and its member cooperatives has shown a sharp increase in the past two decades from 14 billion won in 1965 to 576 billion won in 1982 (won 731=U.S.\$1).

In 1982, it was composed of 268.6 billion won of sale by the NACF and 308.0 billion won attained from the sale by member cooperatives. Of this, 44.3 per cent or 255.3 billion won came from fruits and vegetables, 29.7 per cent or 171.5 billion won from special crops, and 26.0 per cent or 149.8 billion won from food-grains.

The sale by the NACF was divided into 85.7 billion won from sale through cooperative marketing centres, 112.4 billion won from the trade of raw materials and straw products, 24.7 billion won from supply to military forces, 4.1 billion won from exports

## Trends of Marketing Volume by Commodity Group

(in million won)

Commodity Group	1965	1970	1975	1980	1982
Grain	4,518	8,128	109,141	127,849	149,776
Fruits	1,620	3,575	25,215	83,541	123,450
Vegetables	1,582	3,902	29,314	112,505	131,843
Livestock and their Products	817	1,272	46,951	175,150	
Others	5,911	18,363	88,572	193,695	171,493
<b>Total</b>	<b>14,448</b>	<b>35,240</b>	<b>299,193</b>	<b>692,740</b>	<b>576,562</b>

## Trends of Marketing Volume of Agricultural Coop.

(in million won)

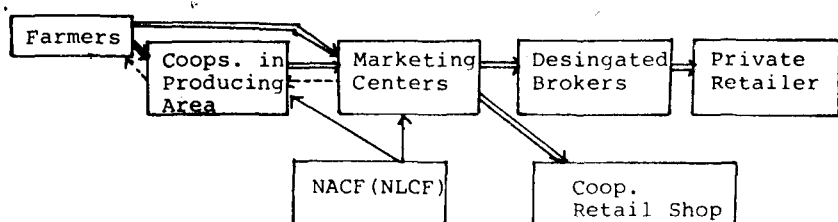
	1965	1970	1975	1980	1982
<b>Sales through the NACF</b>					
Agri. Marketing Centres	4,509	9,092	41,156	67,079	85,715
Livestock Marketing Centre	—	—	11,487	41,847	—
Industrial Crops	4,784	14,103	74,471	125,626	112,392
Military Supply	574	2,042	7,015	40,306	24,699
Export and Others	470	6,220	7,290	3,252	35,054
<b>Sub Total</b>	<b>9,850</b>	<b>20,457</b>	<b>141,419</b>	<b>278,110</b>	<b>268,618</b>
<b>Sales by Local Coops.</b>					
Primary Coops.	386	445	72,248	198,005	229,935
Special Coops	2,224	3,028	41,823	179,791	78,009
County Coops.	1,988	5,310	43,703	36,834	—
<b>Sub Total</b>	<b>4,598</b>	<b>8,783</b>	<b>157,774</b>	<b>441,630</b>	<b>307,994</b>
<b>Total</b>	<b>14,448</b>	<b>35,240</b>	<b>299,193</b>	<b>692,740</b>	<b>576,562</b>

and 31.0 billion won from other sales. Out of the total sale by member cooperatives, 74.7 per cent or 229.9 billion won was obtained by primary agricultural cooperatives and 25.3 per cent or 78.0 billion won by horticultural cooperatives.

The major commodities of raw materials traded by the NACF included sweet potatoes, beer barley, silk cocoon, maize and oil-seeds. Of them, the sale of silk cocoon, beer barley and sweet potatoes amounted to 43.9 billion won, 28.2 billion won, and 16.9 billion won respectively.

Farmers donot have any obligation to forward their products to any cooperative, except the products produced under the contracts for military supply or raw materials for processing. Usually military supply and sales to large processors are practised under the contracts between concerned buyers and cooperative system.

#### Basic Mechanism in Sales through Marketing Centers



Note .   
 ———→ Products   
 ———→ Guidance and Coordination   
 ———→ Payment

### 3. MARKETING FACILITIES OF AGRICULTURAL COOPERATIVES

The primary cooperatives and horticultural cooperatives are engaged in various marketing functions such as assembling, sorting and grading, inspection, packaging, transportation, processing and storage. They operate various marketing facilities including collection points, trucks, rice mills, warehouses and so on in the producing areas.

Meanwhile, wholesaling and retailing institutions are operated in consuming areas. As for the wholesaling institutions, NACF

manages 19 cooperative agricultural marketing centres in the six major cities, and NLCF operates a cooperative livestock marketing centre in Seoul with a branch in Chonju city. The livestock marketing centre was constructed and had been operated by NACF until 1980.

In addition to these marketing centres of NACF and NLCF, 60 primary level cooperatives in or near the consuming areas operate their own marketing centres functioning as a wholesale market. Some of the marketing centres operated by member cooperatives of NACF (25 primary cooperatives and 35 horticultural cooperatives) are similar to the NACF marketing centres in terms of operation procedure and of their functions of wholesaling.

As for retail outlets of cooperative marketing system in consuming areas, there are four types of cooperative retail stores. They are the cooperative grain store, the cooperative meat store, the cooperative general store and the supermarket.

#### Major Marketing Facilities of Agricultural Coop. (1981)

<i>Facilities</i>	<i>Unit</i>	<i>Number</i>
<b>Production Area</b>		
Collection Points	site	1,374
Transportation Vehicles	truck	1,206
Warehouses	house	11,166
Rice Mills	mill	238
<b>Consuming Area</b>		
Agricultural Marketing Centres of member Coop	site	60
Cooperative Supermarkets	shops	4
Cooperative Grain Stores	shops	2,830
Agricultural Marketing Centres of NACF	site	19

#### **4. MAJOR PROMOTIONAL STRATEGIES FOR COOPERATIVE MARKETING**

##### **1) Encouragement of Marketing Activities of Farming Groups**

One of the important functions of primary level cooperatives is guidance on farm management. To improve efficiency in farm guidance, village farming groups were organized at village level and several kinds of incentives have been given to these farming groups to encourage their group activities. Priorities are given to farming groups in the implementation of credit and purchasing programmes of cooperatives. Here it is widely believed that efficiency in marketing and production will be increased by the encouragement of marketing activities to those farming groups.

In order to motivate cooperative marketing activities of farming groups further, the NACF provides them with several forms of incentives in relation to marketing. Such incentives include supply of packing material with the cooperative brand and supply of interest-free credit as a form of advance payment.

##### **2) Improving Marketability of Farm Products**

Several ways and measures are undertaken by the cooperative system to improve the marketability of farm products through increased practice of standardization and packing.

The adoption of cooperative initiated standardization is stimulated for some agricultural commodities in order to establish goodwill for cooperative brand and credibility of products handled by the cooperative system. The NACF also supplies standardized packing materials to member cooperatives with cooperative trade marks and labels. For example, the NACF provided farmers with 2 million corrugated cardboard boxes for fruit packing, 228,000 paper bags and 1,225,000 polypropylene bags for grain packing, and 2,527,000 cooperative trade mark seals or stickers in 1980.

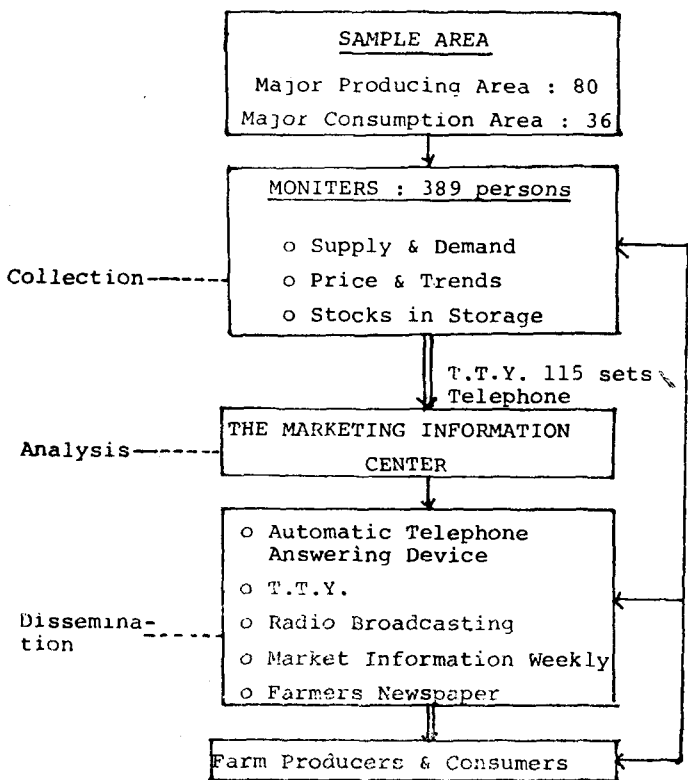
##### **3) Marketing Information Service**

The NACF operates a marketing information centre in Seoul connecting 36 major consuming areas and 80 producing regions.

The number of commodities covered by this information system stands at 53. Information related to current and future market situation is collected by 389 monitors, and is reported to the marketing information centre. They use the telephone and 115 sets of teletypewriters in reporting the information every day.

Collected market information is diffused throughout the nation by various means of communication such as 5 sets (28 different numbers) of automatic telephone-answering devices, radio and television networks, major newspapers all over the country and Market Information weekly of the NACF.

The Market Information Network of Agricultural Coops.



## **Government Policy Towards Cooperative Marketing**

Cooperative marketing in Korea is closely related to the government policy on agricultural marketing as a whole. The "Law on Marketing and Price Stabilization of Agricultural and Fisheries Product", which is the basic law on marketing of farm products, has two provisions related to basic policy line towards cooperative marketing. Article 41 of that law stipulates that the government or any municipal governments should assist agricultural or fisheries cooperatives when they want to establish marketing facilities such as collecting points in selecting the site and constructing the roads for these facilities. Article 42 provides that the government or any municipal governments should give priorities to agricultural or fisheries cooperatives in utilizing its or their marketing facilities.

The basic policy line of government towards cooperative marketing is the stimulation of cooperative activities through assistance and support. In accordance with the basic policy line, marketing centres of the NACF and the NLCF are regarded as public wholesale markets. Thus wholesale transaction is legally permitted in these marketing centres and the government has extended many forms of support to promote marketing activities of cooperatives.

Of these, tax exemptions and financial assistance are the most conspicuous ones. Financial assistance is one of important government support for cooperative marketing of farm products. It has extended to cooperative organizations loans for construction and operation of marketing facilities at various cooperative levels.

For example, government extended 3 billion won to the NACF for the working funds of marketing centres, and 71 billion won (interest free) for the implementation of the Shipment Control Programme of several kinds of vegetables in 1981.

Another example of the preferential treatment is related to the marketing of raw materials for processing. Silk cocoon, potato



for alcohol, rapeseed for oil and beer barley are the commodities that are handled exclusively by agricultural cooperatives for sales to large processors. The government also provides cooperatives with a major part of the funds needed for the procurement of those products from farmers.

Along with cooperative marketing, the cooperative system in Korea takes charge of government-entrusted marketing function. As far as this marketing function is concerned, cooperative organizations in Korea can be regarded as a government agency, for most of their activities related to this function are being done in accordance with the administrative order issued by government, i.e. the Ministry of Agriculture and Fisheries. The important items are rice and barley for NACF and meat for NLCF.

In the case of rice and barley, primary cooperatives make purchases from farmers at the price determined by government, with the funds provided by government, on behalf of government on commission basis. These government grains together with imported grains constitute the buffer stock for national food security and price control. Because rice and barley are the most important food crops in terms of consumer expenditure for food and sources of farm household income, the government makes a persistent effort to stabilize prices of these grains.

Primary cooperatives store government grains in their warehouses until they are transported to rice mills designated by the government. This transportation is subject to the milling order issued by the government. Milled rice is transported to the consuming area and distributed through NACF marketing centres in the six large cities. In the retailing of government grains, cooperative retail shops as well as private grain retailers are utilized. In consuming areas other than the six major cities, primary cooperatives participate in distributing government grains.

NLCF and the livestock marketing centres which were operated by NACF until 1980 take charge of distribution of imported livestock products.

## **Recent Trends in Cooperative Marketing**

### **1. MORE EMPHASIS ON EFFICIENCY RATHER THAN TURNOVER**

It has been proclaimed that selling products through the cooperative channel is more remunerative for the farmers and that a cooperative can benefit not only farmers but also urban consumers by reducing marketing costs, eliminating unnecessary middlemen, and keeping fair trade practices.

It has been believed by enthusiastic cooperative men that cooperative marketing could realize higher prices for the farmers, minimize marketing margins, and enjoy strengthened bargaining power.

It is true, but not always. It is true only when cooperative marketing is approached on profound and sober business basis, and hence its efficiency is higher than that of existing private merchants. F.L. Thomsen says that the cooperative which has been organized in a highly emotional way, with high-powered propaganda, spectacular membership motivation appeals to farmers' prejudice against middlemen or other features of marketing, and, windy promises of great benefits, have almost come to grief.

In the early 1970's, much emphasis was laid on increasing the volume of cooperative marketing in Korea. At that time, it appeared as if most people believed that marketing through the cooperative channel itself was beneficial to the farmers and society as a whole.

But the general feature has been changed gradually. The possibilities and limitations of cooperative marketing has been widely recognized. Consequently the emphasis on increasing the cooperatives' market share has lessened. New emphasis is laid on improving efficiency in marketing activities of cooperatives, because increased market share without higher efficiency would be harmful to both farmers and society.

## **2. MORE EMPHASIS ON INCOME ELASTIC COMMODITIES**

In general, livestock products, fruits and vegetables are known to be more income elastic than staple foodgrains in Korea. As the Korean economy grows, the relative importance of staple food in the agricultural sector is expected to decrease continuously. Demand for income elastic perishable products including livestock products, fruits and vegetables will show a greater increase rate in the future. As the demand increases, more farmers will produce these commodities and more of these commodities will flow through the market.

On the other hand, the role of cooperatives has been relatively limited in the marketing of staple foodgrains because the government's share in the marketing of rice and barley has increased considerably. since 1976, the government has purchased more than 20 per cent of the total rice produced every year. In the case of barley, government purchase reached 45.6 per cent of the total production in 1980.

All these reasons made the cooperative system in Korea lay more emphasis in the marketing of income elastic commodities. The number of cooperatives handling livestock of fruits and vegetables is increasing, many cooperative marketing facilities are constructed for the marketing of these products. The establishment of the NLCF in 1981 also could be considered from this standpoint.

## **3. MORE EMPHASIS ON ACTIVITIES OF PRIMARY LEVEL COOPERATIVES**

In the first years of cooperative marketing, the role of primary level cooperatives was negligible. Almost every marketing activity of multipurpose primary cooperatives or special cooperatives was under the initiative and supervision of secondary or national level cooperative organizations. Even in the first years of 1970's when the Primary Cooperative Amalgamation Programme was being implemented, the sales of primary-level cooperatives formed only a

very low portion of the total volume of marketing of the cooperative system. In 1970, the total marketing volume of the cooperative system was 35,240 million won, of which sales of township and special cooperatives were 3,473 million won, representing only 9.8 per cent of the total. But in 1982, the value of farm products sold by primary level cooperatives was 307,994 million won, exceeding the value sold through the NACF channel.

#### 4. MORE EMPHASIS ON PRODUCTION AND SHIPMENT CONTROL

Price instability of farm products is often mentioned as a major cause of instability of farm households income. Diversified attempts have been carried out to stabilize agricultural prices. An example is the buffer stock operation. But in many cases, the buffer stock operation has a very limited possibility of success mainly due to the difficulties in storing of farm products such as fruits and vegetables.

Since 1974, NACF has tried to carry out the shipment Control Programme on some vegetables which have shown severe price fluctuation. In this programme, a farmer draws a contract with a cooperative that he will sow a certain acreage at a certain date and will ship a certain quantity of a given product at a given period of time.

The purpose of the contract is to control the cultivated area, production and shipment of given agricultural commodities. Even though this attempt has not succeeded satisfactorily, mainly due to the unexpected weather conditions and partly due to farmers failure in duty, it has a significant meaning in cooperative marketing that the control on production and shipment "should be" emphasized in order to guarantee a stabilized and desirable price level of farm products. It is based on the fact that most short-term price fluctuations mainly originated from change in supply rather than that in demand.

# MALAYSIA

Khairi bin Hj Mohamed\*

**M**ALAYSIAN agriculture is primarily a small holding agriculture whereby small holders and small farmers predominate the farm activities in the country. As such marketing of agricultural products by small farmers has special significance since small holdings agriculture is besieged by numerous production and marketing problems, mainly :

- i) Small size of farms and low productivity. The farms are normally small and sometimes produce a variety of crops. In such cases productivity is also low.
- ii) Seasonality of crops resulting in an uneven flow of the products into the market which, in turn, results in shortages and gluts as well as uneven utilization of transport, storage and processing facilities. In the absence of corresponding increase in demand, increased supplies can only be disposed of at reduced prices.
- iii) Perishability of the products poses problems of handling, storage and quality maintenance. Withholding produce from the market during unfavourable periods is not only extremely difficult but in many cases impossible, to do so.
- iv) The bulky nature of the agricultural produce affects transportation and handling facilities resulting in higher per unit costs of transportation, handling and storage.
- v) The absence of uniformity in agricultural produce, unlike manufactured goods whose quality can be maintained at all times. Quality variations occur not only from year to year

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\*Director General, Farmers' Organization Authority, Kuala Lumpur

Note : This article on Agricultural Cooperative Marketing is confined to Peninsular Malaysia.

but from season to season raising problems of standardization of grades. It may also change marketing patterns. The relatively large size of the local fruits such as watermelon affects consumer consumption and in some instances has to be sold in halves or even slices to promote consumption.

- vi) Geographical concentration of production. Not only is there geographical concentration of production of certain produce but there is also geographical concentration of points of production and points of consumption. Here the problem of moving products to consumption areas become evident eg. groundnut for processing is grown in the State of Trengganu but sent to factories in Ipoh, Perak, a distance of 640 km. Similarly vegetables are grown in the Cameron Highlands and sent as far as Johor Bahru, a distance of 595 km, and Singapore, which is further away.
- vii) Difficulties in finding permanent outlets for the infarm produce, particularly for such crops as tapioca, ginger, watermelon, chillies and vegetables.

### **Evolution of Agricultural Cooperative Marketing and its quantitative performance :**

Agricultural cooperative marketing was reported to have started in the 1930's in Malaysia. Rubber marketing was the first activity. However, at present there are not many cooperative societies undertaking marketing. Statistics show that there are now less than ten registered marketing cooperative societies. However there are a little more multipurpose societies involved in marketing rubber, coconut, coffee and cocoa. As for paddy marketing there are 27 cooperative societies. Since the inception of the farmers' organizations under the Farmers Organization Authority, the span of marketing activities has included tobacco, cocoa, groundnut, tapioca, food crops, vegetables and livestock.

Farmers' Organizations are new institutions created under the Farmers' Organization Act of 1973. Prior to this, farmers were

organised under the Farmers Association (established under the Farmers Association Act 1967). Other farmers and rural workers were also organized under various rural Cooperatives. (Agro-based cooperative societies were established under the Cooperative Ordinance of 1948).

The existence of Farmers Associations and agro-based cooperative societies led to overlapping in respect of area, membership and functions. To remedy the situation, the two types of organizations were integrated into the Farmers' Organization, under the jurisdiction of the Farmers' Organization Authority (FOA). To date there are 21 area farmers' organizations, 9 state farmers' organizations and the National Farmers' Organization or NAFAS. However, many of the cooperative societies have not been fully integrated into the area farmers' organization. Instead they have become unit members.

Together they form a comprehensive network of farmers' organizations throughout the country representing and offering services to over 250,000 farmer members. Each farmer's organization covers an area of about 5,000-30,000 acres and 1,000 to 7,000 farm families. The operational area of each area farmers' organization is divided into 10 to 20 or more farmers units for the purpose of facilitating agricultural production and marketing.

Farmers' organizations have multipurpose functions. Besides agricultural marketing their principal activities include :-

- i) supply and distribution of fertilizers, agricultural chemicals, seeds and planting materials and other farm inputs ;
- ii) provision of credit facilities for agricultural production ;
- iii) farm mechanisation services ;
- iv) provision of transport facilities ;
- v) provision of warehousing facilities and other agribusiness services ;
- vi) promotion of savings ; and
- vii) provision of extension services and training.

The higher level state farmers' organizations in principle perform similar functions as the area farmers' organizations and help coordinate these functions with the National Farmers' Organization.

As has been mentioned, one of the primary functions of the farmers' organizations is the marketing of members' agricultural produce. The types and the amount of the products marketed are given in the following table. Although the volume of agricultural products handled is not large (e.g. rubber—compared with a total value of about M \$ 1 billion worth of rubber produced in Malaysia per year and mostly confined to members,) the extent of agricultural marketing activities can be said to be important from the point of view of local organisation.

### **Objectives of Marketing Cooperatives**

#### **a) Primary level**

The main objectives of the primary level or area farmers' organisations are :-

- i) to create wider outlets for farm products and offer more marketing alternative. Thus farmers have a wide choice of markets for their farm products or livestock ;
- ii) to provide farmers with marketing and other related services needed by them in order to sell their farm products, to protect their interests, to eliminate possible middlemen's exploitation, and to realize reasonable price for farm products or livestock ;
- iii) to adjust farm product or livestock supply to market demand, and thus stabilise market prices so as to reduce farmers' losses caused by the wide price fluctuations;
- iv) to provide farmers with such marketing information as prices of farm products to improve their position to bargain with local merchants ; to provide new practices, and new inputs to producers (a change agent ; upgrade technical efficiency) ;



**MARKETING ACTIVITIES OF FARMERS' ORGANISATIONS AND AGRO-BASED  
COOPERATIVE SOCIETIES IN PENINSULAR MALAYSIA**

Commodity	Farmers' Organisation				Cooperative Societies
	1977 M (\$)	1978M(\$)	1979 M(\$)	1980 M (\$)	
1. Rubber sheets, latex & scrap	1,984,620	3,103,170	3,237,564	2,208,388	8,341,354
2. Coconut—nuts & copra	121,417	281,727	591,064	572,180	183,110
3. Paddy, Rice & Rice products	2,116,794	1,173,959	3,724,589	3,936,060	10,085,301 @
4. Cocoa	1,429,975	354,308	387,510	365,086	2,542
5. Oil palm	500,766	685,838	935,913	1,379,934	
6. Pine apple	310,905	543,606	641,127	407,859	
7. Fruits	—	7,134	10,281	281,009	
8. Coffee	—	—	3,395	63,019	
9. Cash Crop					
i. Groundnuts	746,139	778,730	986,664	1,824,208	
ii. Tapioca	207,352	72,771	124,908	108,652	
iii. Banana	25,132	64,756	127,718	102,525	
iv. Melon	19,513	10,242	66,828	61,571	
v. Maize	4,881	6,800	38,253	9,136	
vi. Tobacco	840,275	879,991	1,247,493	1,328,390	46,360
vii. Vegetables	156,957	140,705	231,222	134,440	
10. Poultry (including eggs)	1,011,229	1,259,716	1,748,727	1,677,039	
11. Others	23,363	5,002	86,663	40,570	
<b>Grand Total</b>	<b>9462,727</b>	<b>9,361,646</b>	<b>14,191,989</b>	<b>14,496,062</b>	<b>11,658,967</b>

US\$ 1-M\$2.35 f f b.—Fresh fruit bunches      Mainly multipurpose cooperative societies rather than rubber marketing Societies.      @Major part by rice milling societies.

v) to establish a good agricultural marketing system through the farmers' organization in support of government efforts in improving agricultural marketing programme.

**b) State Farmers Organisation**

- i) making and implementing an overall marketing plan within the state based on the plan made by the lower level and higher level farmers organisations and in conjunction with the Federal Agricultural Marketing Authority (FAMA) so as to minimize as much as possible marketing problems;
- ii) to help find wider marketing outlets including the opening of centres, and the provision of services such as transportation, storage warehouses etc. so as to give the best possible returns to the members ;
- iii) to coordinate between the area farmers organizations, the National Farmers Organization (NAFAS), the Federal Agricultural Marketing Authority and other marketing agencies so as to devise and help implement the best marketing system possible to give members and farmers the best returns.

**c) The National Farmers Organisation (NAFAS)**

- i) making an overall marketing plan based on the plan made by the state farmers' organisation and in conjunction with FAMA and other marketing agencies concerned for the improvement of marketing services.
- ii) to find the best possible market and buyers, both in the domestic and external markets, including carrying out of negotiations at the terminal market for more favourable sales, deliveries, transactions and collecting of sales proceeds;
- iii) to provide facilities necessary for the marketing activities including the setting up of modern factories for the processing of farm products and the dissemination of market information to lower level farmers' organisations.

## **Present marketing cooperative structure in the country.**

The farmers organizations are organized at three different levels—area, state and national level (see diagrams on P. 67-68) Although it can be argued that the three-tier system is bureaucratic and involves greater cost in marketing the system can be flexible. This flexibility can be achieved if the following procedures are adopted :-

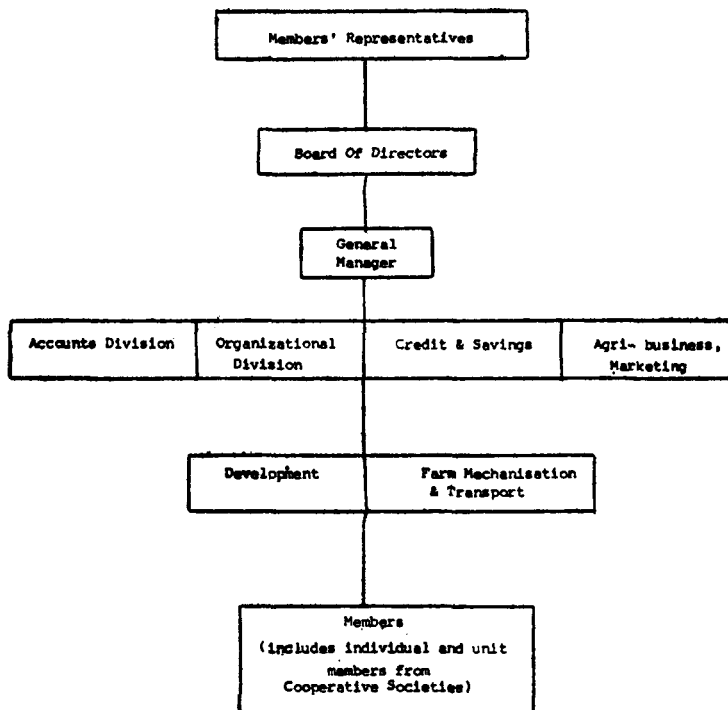
- i) Where the area farmers' organizations are able to move their own produce at satisfactory prices direct to the market they should be encouraged. This is especially so in cases where logistics is a problem and/or where the production volume is inadequate to justify the involvement of the state or national level farmers' organization.
- ii) Where the State farmers' organization is actively involved in agricultural marketing such as in the case of Johore State Farmers' Organization which is marketing oil-palm and cocoa for the area farmers' organization, the National Farmers' Organization shall not intervene except where its assistance is required. This is to prevent unhealthy competition between the organizations in pricing and competing for the products.
- iii) Where the Federal Agricultural Marketing Authority (FAMA) is actively involved in the marketing of the products, the farmers' organizations will stay out or cooperate and work together with FAMA.

Area farmers' organizations are the focal point for individual farmers in marketing their farm produce. They are the first buyer, since they can organize collection, sorting, grading, transporting, storage and even processing, where necessary. Collection and purchasing can be done at unit level where members production are organized.

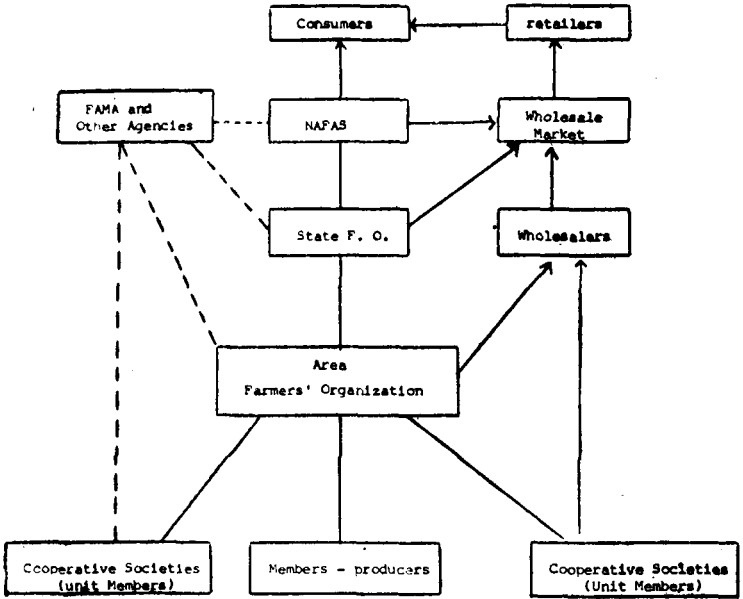
In general, purchasing arrangements are fairly simple, employing direct negotiation with farmers on the price of products. Payment is generally in cash terms.

ORGANIZATIONAL STRUCTURE OF AREA FARMERS' ORGANIZATION

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FARMERS ORGANIZATION MARKETING SYSTEM



Farmers' organizations have four choices for disposal or sales of their products (See Appendices).

- i) Direct selling to a local wholesaler/miller where feasible or directly to retailers where volume is small. Selling directly to retailers will normally fetch a higher price though this will have to be balanced against additional marketing costs
- ii) Selling to the State Farmers' Organizations. Some State Farmers' Organizations are able to organize sales through local millers (e.g. groundnut) or to market centres (e.g. Johore wholesale market).
- iii) Selling to the National Farmers' Organization where the national organization has contracted sales with certain buyers or received government contract for supply of chickens and eggs to hostels, hospitals and army camps, ginger planting materials to the agricultural department, etc.
- iv) Selling to other government agencies such as the Federal Agricultural Marketing Authority (FAMA), National Paddy and Rice Board (LPN) and Malaysian Rubber Development Corporation (MARDEC). The farmers' organizations act as the collecting agents or sells directly to these agencies.

Even though the roles of the farmers' organizations at various levels are there, in actual practice there is little linkage between them. At present efforts are being made to reorganize the functions of the farmers' organizations at all levels. Hopefully the new orientation will bring about better coordination and better member relationship/participation.

#### **Integration of cooperative structure :**

##### **(a) Consumer Cooperative :**

There is no linkage between the farmers' organizations and the consumer cooperative. In Malaysia we have the consumer cooperatives having supermarket chains which operate in the major cities. However they obtain products through their own sources.

## **(b) Finance Cooperative :**

As far as finance is concerned, the farmers' organizations are fortunate in that they enjoy a lot of government support through the Farmers' Organization Authority in the form of subsidies and interest-free loan for revolving funds for their marketing activities. Another source of finance is the Agricultural Bank which gives loans at a very low interest. As such there is little linkage with finance cooperatives.

### **Nature of Functions of Marketing Societies at different levels**

#### **a) Area Farmers' Organizations**

- i) the area farmers' organizations are responsible for making the marketing service plan based on the agricultural production conditions, members' needs, and plan of higher level farmers' organizations.
- ii) encouraging and providing technical guidance to member-farmers for the improvement of their production techniques and farm management, preparation of farm products for the market in coordination with the Agricultural Department, Malaysian Agricultural Research and Development Institute (MARDI) and FAMA.
- iii) investigating the marketable volume of farm products from the members and finding marketing outlets, including purchasing arrangements with the members.
- iv) Collecting, inspecting, sorting, grading, packing and transporting of farm products. In the case of certain crops like groundnuts and watermelon, the process involves collecting, grading and immediate sale. In Kuala Brang, Trengganu, the farmers' organization brings the groundnuts from the farm gate or they are brought to the farmers' organization premises by the farmers themselves. The groundnuts are weighed, graded and immediately sold to FAMA. In the case of tobacco the process is more refined and more time is taken in sorting, grading and packing of

the product. In the Merliman Farmers' Organization, Malacca, coffee powder is distributed through the local vendors.

- v) providing facilities for post-harvest treatment and rendering of storage and other facilities and services for initial processing of farm produce as in the case of paddy and rice mill cooperative societies; of tobacco by the farmers' organizations in Kelantan, Kedah and Trengganu; of cocoa by the Sabak Beranam, Kuala Selangor (Selangor), Hutan Melintang, Bagan Datoh (Perak) and Batu Pahat Selatan (Johore) farmers' organizations and of coffee by the Merlimau (Malacca) and Batu Pahat Selatan (Johore) farmers' organizations.
- vi) collecting and paying of the sale proceeds. (Members are normally being paid immediately after the sales transaction whereas the farmers' organizations may be paid immediately or one or two weeks later by the dealers or marketing agencies concerned. Thus there is a need for sufficient marketing revolving fund )
- vii) coordinating with the higher level farmers' organization and other institutions like FAMA, LPN, MARDEC for the improvement of marketing service. This is very important to avoid overlapping of functions and competition as such things have happened quite often in the past.

#### **b) State Level Farmers' Organization**

- i) The State level farmers' organizations are responsible for the making and implementing an overall marketing plan within the State based on the plan made by the lower and higher level farmers' organizations.
- ii) helping find the best market and making marketing arrangements as in cocoa and oil-palm marketing done by the Johore State Farmers' Organization.
- iii) providing transportation, storage and warehousing services.



- iv) **setting up factories** such as the oil palm factory set up by the Johore State Farmers' Organization.
  - v) **help coordinate** between area and national level farmers' organizations.
  - vi) **providing guidance and supervision** for lower level farmers' organizations to improve marketing service.
- c) National Level Farmers' Organization (Nafas)**
- i) **The National Level Farmers' Organization is responsible for making an overall plan of agricultural marketing based on the plan made by the lower level farmers organizations.**
  - ii) **selecting the best markets and best buyers both domestic and external market.**
  - iii) **negotiating at the terminal market for more favourable sales, deliveries, transaction and collecting of sales proceeds.**
  - iv) **providing storage, warehousing services and the setting up of modern factories to process the farm products.**
  - v) **issuing of market information to lower level farmers' organizations.**
  - vi) **Coordinating with relevant government authorities and agencies concerned for the improvement of marketing service and for securing government contracts.**

In practice the role of the State and National Farmers' Organizations is more that of 'buyer of last resort' and an intermediary in respect of arranging markets for area farmers organisation. The State and National Farmers' Organizations assist local farmers' organizations in contacting buyers and finding external market for farm produce.

While the National Farmers' Organization in conjunction with the State Farmers' Organizations can offer positive contribu-

tion to agricultural marketing its potential is thus not fully exploited by the Government and the farmers. With FAMA and other Government marketing agencies around, the farmers' organizations find that the role of the State and National Farmers' Organizations in providing marketing services is not very important. The State and National Farmers' Organizations function more as 'Chambers' for the members to air their grievances. However, the State and National Farmers' Organizations are satisfied with the present situation as investments in other business ventures such as property and estate development is more lucrative and involve less risk.

### **Commodities handled and marketing procedures**

The Commodities being handled by the farmers' organizations include rubber in the form of latex, sheet rubber and scrap ; paddy and rice ; groundnuts, tobacco, oil palm (f.f.b), coconut in the form of nuts and copra ; poultry, other fruits and vegetables. The types of commodities and the quantitative performance have been described in the table earlier.

#### **Marketing procedures :**

The following marketing procedure is being practised by the farmers' organizations :

##### **a) Direct Trading or outright Purchase Method**

Under this method the marketing of the produce is done in the normal commercial manner whereby prices are determined when the produce is ready for the market. This is the normal practice among the farmers' organizations. In a sense the farmers' organisations act as primary wholesalers. Fruits, vegetables, groundnuts, paddy, and tobacco are handled this way,

In the marketing of groundnuts, as in Trengganu, the prices are fixed by the factories in Perak in conjunction with FAMA. The farmers' organization buys from the farmers with cash from its own fund as well as revolving capital loaned by the Farmers'

**Organizations Authority.** FAMA pays the farmers organization weekly or bi-weekly depending on the situation. Normally the farmers' organization charges a certain margin for transport and other handling costs.

In the case of tobacco several farmers' organization in the states of Kelantan, Trengganu and Kedah are involved. These farmers' organizations buy the green leaves from their members usually paying cash and process them into cured leaves. The cured leaves are sold directly to cigarette companies at prices fixed by the National Tobacco Board according to grades. These companies pay the farmers' organization through the organization's bank account a few days after the transaction.

Some farmers' organizations which deal with cocoa and coffee marketing buy wet/raw beans from farmers in cash, process and sell the products to established wholesalers/exporters or to FAMA. In the case of the Marliman farmers' organization coffee powder is distributed through the local vendors.

Paddy marketing is more extensively being carried out by the rice milling cooperative societies mainly in Ketantan and Kedah. The societies either mill the paddy for the members for a certain fee or buy the paddy outright to be processed into rice. Besides rice the byproduct in the form of rice bran yields a considerable income to the societies concerned. Little link is established between these societies and the parent body in the farmers' organization. However, one rice milling society in Kedah sends its rice as far as the Masjid Tanah Farmers' Organization in Malacca (a distance of 630 km) which carries out wholesaling in consumer commodities.

Other crops like vegetables, tapioca, coconut, and fruits are also being done by direct trading. By this method, the farmers receive cash in handling of their produce and there is no risk factor involved as far as they are concerned.

However, the farmers' organizations have to carry part of the marketing functions and as time is involved, will bear a greater risk especially in times of downward fluctuation in price. The

farmers' organizations too have to invest considerable funds for the purchase of produce paying cash to member farmers.

#### **b) Consignment Method**

In this case, the farmers' organization usually acts as collecting agents for marketing institutions such as LPP, FAMA, MARDEC and the State Economic Development Corporation (SEDC). Many of the farmers' organizations in the paddy growing areas like Tanjang Karang and Sabak Bernam collect paddy for the National Paddy and Rice Authority (LPN), those in the rubber growing areas collect rubber in the form of latex, sheet and scrap for MARDEC and pineapple fruits for the pineapple canneries as in the State of Johore.

Other goods traded this way include cocoa to FAMA and oil palm fresh fruit bunches (ffb) to SEDC factories or private-owned mills as in Selangor and Johore, In Johore, the State Farmers' Organization arranges the marketing of oil palm ffb for all the area farmers' organizations.

The farmers are paid after the sales transaction is completed or given advances by the farmers' organizations.

As collecting agents these farmers' organization are paid commission for their services which are normally calculated on the basis of weight.

Since most of the marketing functions are carried out by the farmers' organizations the farmers can concentrate their efforts on production. The farmers' organizations need not have as much fund as is needed in case of outright purchasing method and bear little risk as any loss incurred will be shared by the individual owners of the produce.

However the farmers may need cash immediately and entertain the fear that the farmers' organizations may not get high prices for them. This method also involves great risk for the producer on account of decline in prices, shortage in transit and possibility of loss in perishable produce as in vegetables. As such

this method can only be carried out on certain commodities and if there is little or no other marketing channel for the farmers.

### **c) Contract Sales**

An example of goods marketed in this manner is poultry and eggs. The National Farmers' Organization obtains contracts from institutions such as hospitals, hostels, army camps, etc. at a fixed price, and then comes to some contractual agreement for supply of chickens and eggs with area farmers' organizations such as the Kuala Selangor and Tanjong Karang Farmers' Organization. In turn the National Farmers' Organisation supplies feed and day-old chicks to the area farmers' organizations. The area organizations do not rely fully on members for the supply of poultry and eggs. Many of the organizations obtain their supplies through their own farmers in the vicinity of the organizations' offices.

Other products marketed this way include tapioca, which is grown on a large scale, as in the State of Perak. The organizations make the contract on behalf of the members or for their own projects with the tapioca factories with regard to production and prices expected.

In the case of cocoa, since the established wholesalers buy in bulk, the area farmers' organizations join together to be able to supply in bulk or through the State Farmers' Organization, as in Johore.

The Johore State Farmers' Organization signs contract for the supply of cocoa beans with the dealer/exporter. In turn the JSFO gets the commitment of the area farmers' organization for the supplies. Oil palm ffb is also marketed this way in Johore.

The marketing of tobacco and groundnuts in Kelantan and Trengganu can be considered as contract sales, especially in tobacco. This is because each farmers' organization is given a certain quota of cured leaves to be supplied each year through the LTN and the price is already fixed according to grades. So the farmers'

organization only needs to concentrate on the production and processing aspect.

Other than tobacco, generally this contract method is not doing well. Problems start to rise when the current market price of the contracted product is higher than that in the agreement. Either the farmers' organization has to pay higher prices to the members and incur losses or it does not get any product at all.

### **Exports-present position**

At present the marketing activities of the farmers' organizations are confined to the country. Several attempts have been made in the past to market vegetables and fruits to Singapore, especially by the farmers' organizations in Johore. However, due to poor managerial control (a lack of experience) and due to intense competition from the existing dealers/wholesalers, the farmers' organizations concerned incurred heavy losses. Eventually the activities dwindled and came almost to a standstill.

Perhaps with the opening of more oilpalm plantations especially in Johore and Pahang, this will lead to the opening of more oil palm mills which in turn will stimulate the finding of direct overseas market.

### **Benefits accruing to farmers through Cooperative Marketing**

- i) With wider outlets for farm products and more marketing alternative the farmers have wider choice of markets for their farm products or livestock.
- ii) Through cooperative marketing, products such as cocoa, coffee, coconuts and tobacco can be economically processed into finished or semi-finished products. This will bring in higher sales value which in turn will benefit the members.
- iii) The farmers are provided with marketing and other related services needed by them in order to help them sell their farm products, protection of their interest through better bargain-

ing power in bulk sales, elimination of possible exploitation by middlemen and getting of more reasonable prices for their farm products or livestock.

- iv) With farm production and livestock supply adjusted to market demand, market prices could be stabilized, and thereby farmers' losses caused by the wide price fluctuations could be reduced.
- v) Since the farmers are provided with such prevailing market information as prices of farm products, they are in a better position to bargain with local dealers.
- vi) With the marketing function taken care of by the farmers' organizations, the members need only concentrate on the production aspects of farming.
- vii) As members of the farmers' organization, a portion of whatever the farmers' organization gets through the marketing activities is returned to the members as yearly patronage refund.

### **Financial Structure-mobilisation of resources and their deployment in marketing operations**

Contribution of share capital by the members plays an important role in determining the success of the farmers' organization. Up to the end of 1981 the accumulated share capital is M\$ 7 million.

Only 26 per cent of the farmers' organizations are having share capital of more than M\$30,000. As a whole more than 70 per cent of the members are having two shares or less each. (each share is M\$5.00)

On the marketing aspect the turnover for 1980 was M\$14.4 million or M\$138,652.00 for each farmers' organization. However, more than 30 per cent of the farmers' organizations have a turnover of less than M\$110,000.00 and more than 70 per cent less than M\$60,000.00 per annum. The achievements of the State and

**National Farmers' Organizations** are a bit disappointing with NAFAS achieving M\$7,389,587,00.

It is obvious that the share capital or members' contribution is insufficient to expand the marketing activities of the farmers' organization. Ways and means are being sought to increase the members' contribution. For example, many farmers' organizations incorporate a system whereby the credit eligibility of members is tied with the amount of their share capital or savings. And some farmers' organizations deduct a certain amount from the sale proceeds of the members to be paid as share capital.

However, the farmers' organizations enjoy a considerable amount of financial assistance from the Farmers' Organization Authority. This may include a revolving fund for transport, warehousing and processing facilities. To facilitate marketing operations of farmers' organizations the FAO is establishing purchasing-cum-warehousing centres at the area level. Between 1974 and 1981 the Farmers' Organization Authority has given out a total of M\$128,915.274 as revolving fund for the business activities of the farmers' organizations including marketing. Whenever required, especially during times of peak production, the FOA helps to coordinate all available means of resources such as transportation and personnel to be mobilized to ensure the success of the marketing programme.

### **Manpower Development for Cooperative Marketing**

The original target of the Farmers' Organization Authority (FOA) was to establish 210 area farmers' organizations. This having been achieved, the present policy is no longer to restrict their numbers. The FOA is the ultimate authority responsible for the entire supervision, control and management of the farmers' organizations. The FOA assigns its own staff (five officers) to serve as General Managers and as heads of the various business and service divisions for the running and managing of the business operation of the area farmers' organizations. It extra personnel is required the farmers' organizations concerned has to employ its



own staff and pay from the projects funds. Since marketing is not very profitable and involves a lot of work and expertise, it is difficult for the organizations to employ good and experienced marketing personnel.

To cater to the needs of training, both for the workers and staff of the farmers' organizations as well as the farm leaders the FOA set up the Training Division in 1974. Short courses and seminars are conducted regularly to train the staff and farmers in all aspects, connected with the cooperative movement and management in the hope that they will understand and serve the organizations with increased dedication and effectiveness.

In 1980, a total of 148 courses were conducted benefiting 5,072 farm leaders/farmers and the following year 245 courses were conducted involving 10,965 personnel. Staff and officers of the FOA/farmers' organizations are given study leave to pursue degree and further education so that they can serve the farmers' organizations better on their return. In the Fourth Malaysia Plan (1981-1985) the Government allocated a sum of M\$6 million to set up training centres and carry out the various training programmes.

Besides attending courses with the FOA the staff and officers/farmers of the farmers' organizations are also sent to the cooperative College of Malaysia. They are also given opportunities to participate in courses and seminars connected with agriculture/marketing both within and outside the country (like Japan, Korea, Thailand, India, Sweden etc) to enhance their knowledge in the respective field.

### **Role of Government in Promoting Agricultural Cooperative Marketing**

The farmers' organizations, under the jurisdiction of the Farmers' Organization Authority, have been formed with the specific purpose of raising the small farmers' income and promoting greater participation in the country's agricultural development

programme. At present more than 210 such farmers' organizations have been formed to look after small farmers' development. The essential services required by farmers and undertaken and operated by the multipurpose farmers' organizations in order to promote a dynamic and commercialization form of agriculture include marketing services-to assist farmers in marketing of farm produce and ensuring good prices as well as to seek new market outlets for farm produce.

With the advantage of full government support and the recognition of its strategic role in agricultural development, the organizations have been given many assistance through the FOA for their marketing activities :

- i) The assignment of the General Manager and at least 5 other officers to carry out among others activities in marketing.
- ii) Grants/subsidies for the setting up of the main office, sub-centres and store rooms.
- iii) Grants/subsidies for the planting of cash crops and the setting up of processing facilities such as rice mills, copra kiln, tobacco barns, cocoa and coffee processing units ; and drying yards.
- iv) Grant for lorries and other transport facilities.
- v) Loan for revolving fund.
- vi) Training facilities.

### **The Marketing Programmes of FOA**

Under the Third Malaysia Plan (1976-1980) the Government allocated a sum of M\$24 million to finance the farmers' organizations in the planting of cash crops ; M\$1.3 million to establish marketing or collecting centres ; M\$3.8 million for farm transportation and marketing operations ; M\$11.9 million in revolving fund to promote marketing activities.

**Under the Fourth Malaysia Plan (1981-1985) the government increased the allocation with M\$39 million for crop production ; M\$29.5 million as revolving fund ; M\$7 million for rehabilitation of rice milling societies ; M\$3 million for processing activities. The crops are to be planted on commercial basis.**

**The intervention in the market situation is with a view to increasing the bargaining power of the farmers' organizations.**

**The assistance of government is much needed for the healthy and uninterrupted development of the farmers' organizations especially at the initial stage. Such assistance is given in the expectation that this will eventually lead to stable and self-supporting farmers' organizations.**

### **Problems arising out of government planning, policies and programmes**

- i) While presence of other marketing agencies, notably FAMA, is beneficial and supplements the marketing efforts of the farmers' organizations' it also retards the growth of cooperative marketing, especially at the State and National level.**
- ii) The farmers in this country enjoy various forms of subsidies and grants for their crop production. This includes paddy cultivation. Besides the subsidies for production inputs the farmers are given subsidies for the paddy they produce at the rate of M\$10.00 for every pikul of paddy sold to the National Rice and Paddy Authority (LPN) or to appointed agents of the LPN. However, this has almost crippled the small rice milling societies since the paddy is no longer going to them.**
- iii) Farmers' organizations should be given more privileges and preferential rights particularly in the award of government contracts for the supply of rice, eggs, meat and vegetables. This will help the farmers' organizations achieve the objective of guaranteed markets for specified farmers produce.**

## **Linking of cooperative marketing with state sector trading organization**

In the marketing of agricultural produce, the linkage between the farmers' organizations and the many State Sector trading organizations is very crucial.

To support the institutional marketing arrangements by farmers organizations and cooperative societies, the Government has established marketing corporations, one of which is the Federal Agricultural Marketing Authority (FAMA). FAMA is a national marketing agency responsible for the initiation, planning and implementation of marketing programmes for the agricultural producers. The objectives of FAMA are as follows :-

- i) To coordinate and cooperate with the various existing marketing organizations and those government bodies entrusted with marketing in order to improve marketing practices and raise marketing efficiency ;
  - a) by introducing and implementing marketing schemes ;
  - b) by providing marketing facilities such as storage, coldrooms, transport etc ;
  - c) by regulating quality, packing standard, marketing procedures and sales etc ;
  - d) by facilitating a more precise adjustment of the qualities, quantities and types of produce sold on particular markets through market research and extension so that the producers can be ensured of equitable treatment and a larger share of the consumer's price than they now obtain.
- ii) To protect producers and consumers against the impact of sharply fluctuating agricultural prices ; and
- iii) To provide a favourable economic and social climate for the expansion and diversification of agricultural production and development.

The functions of FAMA have been expanded to enable it to operate various marketing schemes through the formation of subsidiary corporations. A number of marketing schemes involving vegetables, coconut, cocoa, coffee, groundnuts, fruits and meat have been set up. FAMA is working very closely with primary producers' organizations such as farmers' organizations and cooperative societies at the primary level, particularly with respect to collection, grading, warehousing and transportation.

At present many of the agricultural projects are being carried out with an integrated approach, involving the Agricultural Department, FAMA and the farmers' organization. In the State of Kelantan and Trengganu where the bulk of the groundnuts is grown, the Department of Agriculture gives input subsidies, the farmers' organization credit for the land preparation and FAMA does the external marketing arrangement. Likewise other projects like watermelon and vegetables are done in a similar way. For this FAMA is well equipped with lorries and cold room facilities.

In view of the importance of paddy cultivation and the complexities of paddy marketing, the Government has also established the National Paddy and Rice Authority (LPN) with responsibility for the control of licensing of paddy purchasing, milling operations and marketing of rice through a network of wholesalers and dealers. The National Paddy and Rice Authority is also responsible for the provision of milling and drying facilities and has established a number of rice mills in the major areas such as in the Muda irrigation scheme (260,000 acres) and in the Kemubu irrigation Project (70,000 acres). The National Paddy and Rice Authority is also responsible for the control of rice importation and export, standardization of grades and also promotion of efficient system of rice marketing throughout the country. About 75 per cent of all paddy purchased by the cooperative societies/farmers' organizations are marketed through the LPN.

Likewise linkages occur in the marketing of rubber where 43% of members' rubber production are being handled by the coopera-

tives, working in close collaboration with the Malaysian Rubber Development Corporation (MARDEC) and RISDA.

In the marketing of pineapples, which is the primary activity of the cooperative societies in the major pineapple-growing areas of Malaysia, about 30 per cent of members' produce are marketed direct to the pineapple canneries.

The Hutan Melintang farmers' organization in Perak, at one time or another, collects coconut for the State Economic Development Corporation's Dessicated Coconut Factory at Telok Anson.

From this it is very obvious that the linkage between the farmers' organizations and the State sector trading organizations is very important in order to ensure that the area farmers' organization really becomes an integrated rural institution.

### **Cooperative Marketing Problems**

Numerous problems are encountered by the farmers' organizations in carrying out marketing activities. While some of the problems are related to the carrying out of the marketing operation or of external problems, some are related to the organization itself.

- i) Farmers have not gained through understanding of the market demand as well as marketing procedure and do not respond precisely to the actual needs.
- ii) Lack of support in terms of solidarity and lack of loyalty. Most members tend to be easily tempted by the price incentive given by private traders. The long-range objective of the organizations/cooperatives which are for their benefit are not assimilated. Cases have been known in the past where farmers/members send products of better quality to the middlemen and the poorer quality products through the farmers' organizations. However, there is a need for the organizations to devise practices which would attract members. Even though there is provision for patronage refund this is not fully carried out.

- iii) Many of the farmers' organizations carry out marketing operations without the involvement of the members in the actual operations. Without their participation the organization cannot hope to instill member loyalty. By serving on committees and participating in the actual marketing process the members could feel that they are a part of the organization, and have a say in the way it is operated.
- iv) Cooperative marketing involves different technical problems such as sorting, grading, inspecting, transporting etc. and the farmers' organization employees may consider it too difficult a task to tackle, especially in the absence of incentives.
- v) Because of their uneconomic size cooperative societies which have a small membership, and are financially weak cannot carry out business. Many of the small rice milling societies are dying especially with the implementation of the Government subsidy scheme for paddy adding to the already existing problems.
- vi) In carrying out the marketing service to protect members' interest the farmers' organizations face strong competition from the influence of private merchants including middlemen and millers who are already rooted in the rural marketing system.
- vii) Lack of managerial talent and experience to have proper control over the activities of the organization. Many of the managers are young graduates trained in agriculture but lacking the necessary knowledge and professionalism related to business activities of which includes marketing. The knowledge they acquired are mostly through on-the-job training which is inadequate since they have to undertake their responsibilities on a trial-and-error basis. This undoubtedly affects the performance of marketing activities. The high turnover of the general managers because of

resignation or transfer due to promotion aggravates the problem further.

- viii) In the cooperative societies leadership is usually stable. The same people are usually responsible for the societies, policy and function for many years. Even with changing times as well as increase in business volume the management style will not change. This non-dynamic form of management will inevitably lead to managerial inefficiency. On the other hand, the younger people will want better and stable jobs in the towns.
- ix) The art of merchandizing has not been practised in the farmers' organizations. One strong reason is that farmers' organizations are supposed to portray to members their sincerity in weighing, grading etc. However there is no reason why the selling and buying techniques should not be improved to keep abreast of private traders.
- x) The farmers' organizations and cooperative societies appear to fend for themselves with little or no vertical linkages between the area, the state and the national level organization. Just as there is a gap between the area organization and member relationship, there is gap between the area and state organizations and between the state organization and NAFAS.
- xi) The problem of inter-agency coordination, as in the case of the 'groundnut price crisis of 1975' in Kuala Brang, Trengganu, requires attention. Although the problem seemed to centre in the resulting effects of increased production and simultaneous harvesting an outcome of oversight in planning, there are many lessons which could be learnt as well. While the FOA is responsible to increase farmers' production and bargaining power through collective marketing, there are other agencies principally FAMA and the Department of Agriculture which are servicing the non-members (with FAMA doing the actual marketing at the farm level



and through their appointed agents) and the problem is one of inter-agency coordination. Presently more coordination and cooperation between the various agencies involved is taking place.

### **Prospects**

Experiences of the past few years have brought about better understanding and effective coordination between the various government bodies involved in agricultural production and marketing. Many of the marketing problems are an outcome of oversight in planning and lack of integration between the various agencies. Many of the agricultural projects are now being carried out with an integrated approach with the Department of Agriculture supplying the agricultural inputs, the farmers' organizations helping in the land preparation (and internal marketing arrangements), the Agriculture Bank providing loans if they are necessary and FAMA supplying market information/intelligence as well as finding external markets.

The state and national farmers' organizations on the other hand concentrate on investment and estate development. Their involvement in agricultural marketing will be on specific crops and where other government agencies are not involved.

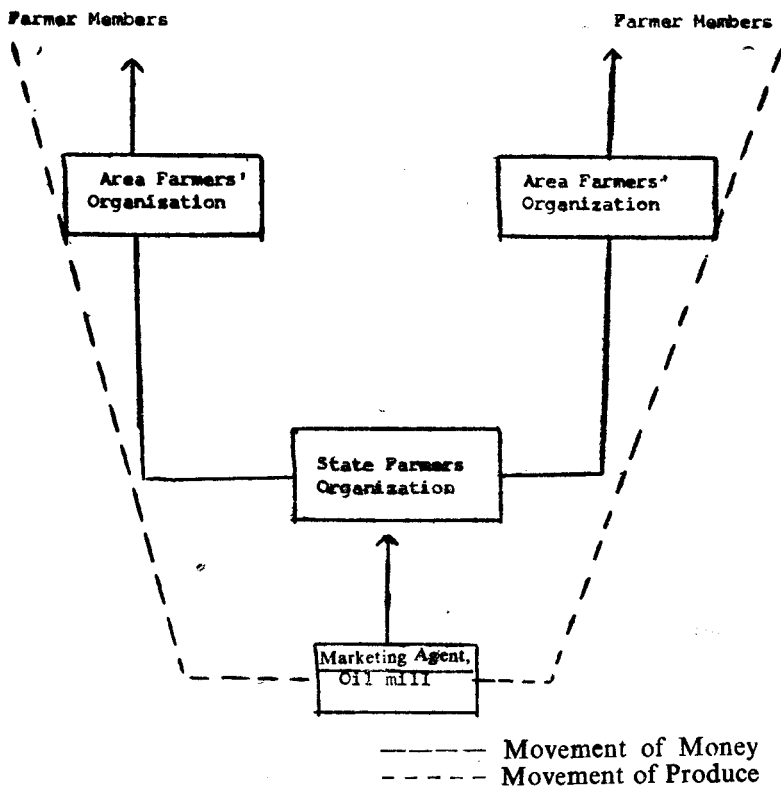
At the same time the setting up of the Training Division within the FOA shows the importance of the need for training, especially for member education. To bridge the gap between members and management and to elicit support from members, informal or formal training will be carried out more vigorously. Among other things the members will be told the importance of marketing cooperatively, preparation of the crops for marketing and the actual marketing procedure itself.

Under the new orientation, ways and means are being carried out to strengthen the farmers' organizations at the grassroot level and encourage full participation of members and farmers in the farmers' organizations' activities.

The future is bright with tremendous potential in organizing cooperative marketing and processing activities. Some inroads into this aspect have been made and the matter will be pursued more vigorously to attain greater achievement and success.

**Appendix A**

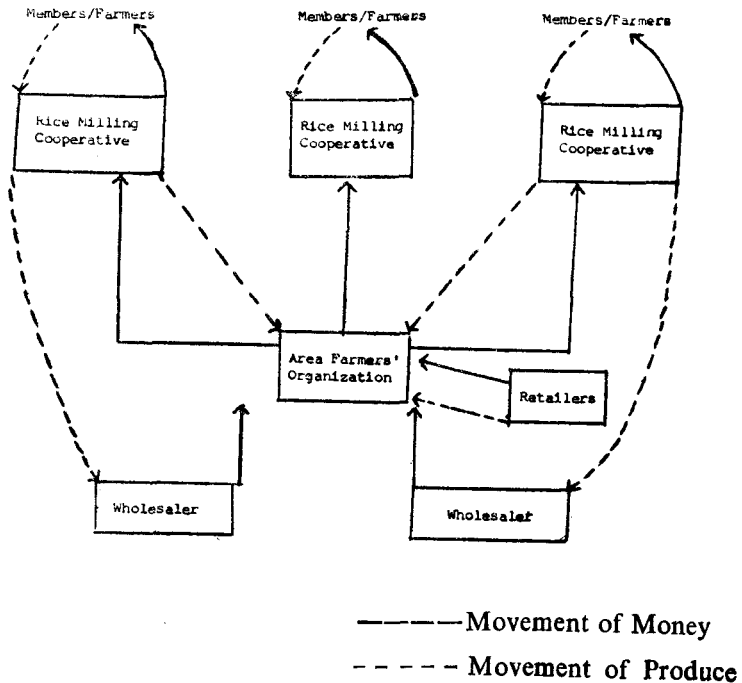
**a) Physical movement of Produce and flow of money in the marketing of oil palm ffb as in Johore State**



The State Farmers Organization deducts an average of 3 to 5 percent for their services and the area organization deducts the same from their members.

The marketing of dried cocoa beans in Johore state is on similar lines as the above.

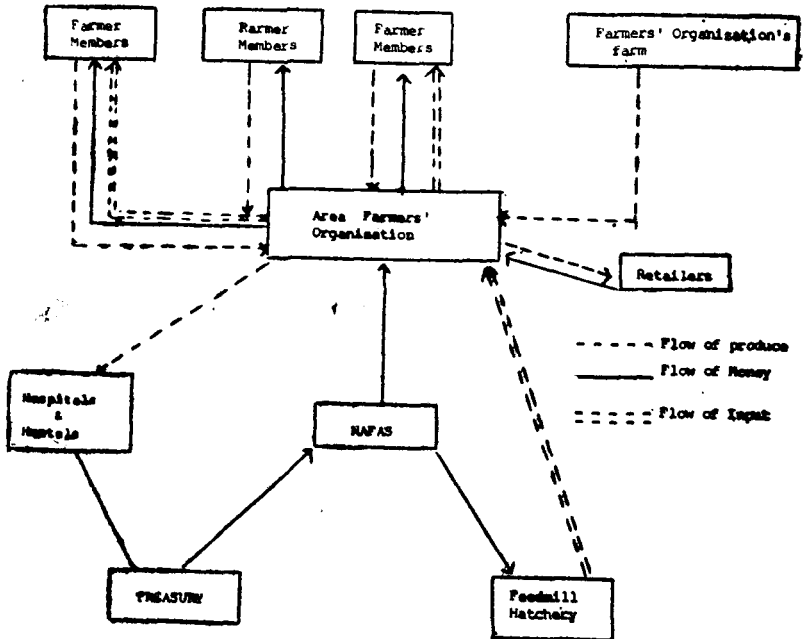
b) Physical movement of Produce and flow of money in the marketing of Rice as in Panjong , Karang and Sabak Bernam Farmers' Organization, Selangor



Rice milling cooperative societies buy paddy from the farmers making a gross margin of 1.50 to 2 per pikul and sell rice to the local farmers' organization.

The farmers' organization in the area holds the sole rice wholesaling licence for the cooperatives in the area. It can wholesale rice to a secondary wholesaler in Kuala Lumpur or prepack and sell them to retailers, which may be other area farmers' organizations.

c) Physical movement of produce and flow of money in the marketing of chicken (Kelang and Ulu Pangat Utara farmers' Organizations in Pelangor)



The farmers' organization receives feed and day-old chicks direct from the feedmills and hatcheries on NAFAS account. The farmers' organization distributes to them to farmer members and some are used for their own farms. In return, the farmers' organization collects live chicken from the farms, and slaughter and dress them for delivery to hospitals and hostels. Payments are made through Federal Treasury to NAFAS. After deduction of cost of feed and day old chicks NAFAS returns the balance to the farmers' organization which in turn will pass the money on to farmer members.

# PAKISTAN

**Shaikh Muhammed Muslim\***

Pakistan is the cradle of a very old civilization dating back to 4,000 years before the Christian era. It lies East of Afghanistan and Iran and west of India. It borders Afghanistan/Kashmir and touches the Hamalayan foothills/Karakoram mountains in the north and is bounded by the Arabian Sea in the South. The climate of Pakistan is diversified. Winter, spring, summer and rainy seasons set in at regular intervals. Winter is extremely cold in some parts; there exist temperate zones, and the plains are hot. The average annual rainfall is about 20 inches.

Pakistan covers an area of 311,406 square miles (519,010 square kilometers.) Its population is 88.2 million, and Muslims form a vast majority of 98 percent. The rate of literacy is 25 percent. Pakistan is predominantly an agricultural country. Eighty percent of its people live in rural areas and find their livelihood in agricultural pursuits. The country chiefly produces wheat, cotton, rice, sugarcane, maize, pulses, tobacco, vegetables and fruits. Pakistan produced 12.2 million tons of wheat; 4.8 million bales of cotton and 1.3 million tons of sugarcane during the year 1982-83. Wheat is the staple food of the inhabitants. Its agricultural produce imports and exports are valued at U\$4,729.95 million and U\$7,896.78 million respectively. The per capita annual income is U\$233.2 at present as compared to 36.5 dollars in 1964.65.

## **Introduction**

The Cooperative Movement was initiated and introduced in Pakistan, by the Government which set-up a Cooperative Department in every province to help realise its objectives. The purpose

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was to save the simple minded and illiterate tillers of the soil from the clutches of the callous and cunning money-lenders; to afford them financial relief and to enable them to become creditworthy. The first Cooperative legislation, namely, the Cooperative Credit Societies Act, 1904, provided for the formation of Cooperative Credit Societies only, by men of small means, on the principles of self-help and mutual aid with monetary assistance from Government agencies. The Societies started growing in the country, infused confidence and showed the cooperative way of life. The experience of some years disclosed that the said Act was inadequate and not conducive to the progress of the Movement. That Act was, therefore, replaced by the Cooperative Societies Act, 1912, to provide for the organization of all forms of cooperative societies and to build up a secondary and vertical cooperative structure to achieve an all-round progress of the Cooperative Movement. It also empowered the Provincial Governments to make Local Rules to carry out the purposes of the Act. The Act of 1912 remained in vogue for about 52 years, when the Government considered the advisability of adopting the Sind Cooperative Societies Act 1925 and Sind Cooperative Societies Rules, 1927, operative in the Province of Sind. Finally the Legislature in 1965, enforced the Cooperative Societies Act, 1925 and the Cooperative Societies Rules, 1927, throughout Pakistan after making some amendments in the said Sind Act and Rules, on the ground that these were more comprehensive, exhaustive and better suited to the healthy development and progress of the movement.

The cooperative movement has gradually spread and developed by an evolutionary process during the last eight decades and has emerged as a vivid force, intrinsically capable of delivering goods and improving the lot of the common men of limited means. There are now nearly 75 different types of cooperative societies in Pakistan, totalling 50,800 with a membership of 2,760,000, a share capital of Rs. 256 million and a working capital of about Rs. 4,000 million

## **Prerequisites of Agricultural Marketing**

Agricultural cooperative credit, production and marketing are interdependent and the success of any one of them without the others cannot be conceived. Agricultural cooperative credit continues to be the backbone of the cooperative movement in Pakistan. It accounts for more than 50 percent of the total cooperatives in the country. The number of credit cooperatives is 27,000; their membership 1,435,000; share capital Rs. 75 million and the working capital Rs. 790 million. There are four provincial cooperative banks located at the provincial headquarters of Baluchistan, North-West Frontier Province, Punjab and Sind. These banks link the cooperative credit structure with the money market, function as balancing centres for their member societies and advance loans to them for agricultural operations. These banks borrow from the State Bank of Pakistan and the Federal Bank for Cooperatives. Their membership is 34,600, share capital Rs. 17.55 million and working capital Rs. 1538.50 million.

Almost all members of agricultural cooperative credit societies are wholly engaged in farming for the purpose of agricultural production as a profession. Cooperative farming societies provide agricultural services to their members who individually cultivate their land to increase the produce. Besides, there are better farming societies; fruit growers societies and associations; multipurpose societies; farm service societies and centres; development societies and rural supply cooperative corporations, which make available seeds, fertilizers and other inputs, insecticides, pesticides and agricultural machinery; afford guidance in crop patterns and help the produce to grow in size. Amount of success is correlative.

## **General Difficulties in Agricultural Marketing**

Economic pressures compel the farmers to dispose of their produce locally, immediately after the harvest, when the prices are the lowest and they may also have to sell their standing crops. Such disposals benefit the village purchaser, who is either the

creditor or the local shopkeeper. He transports the produce in bulk to a market place for sale and earns large profits.

In most cases the quantity of the produce is small and the cultivator does not consider it worthwhile to incur transport expenditure. His information about the current rates and prices is inadequate and he often remains in the dark about them. He is unaware of the techniques of striking prices; arbitrary deductions are made, cesses charged and commissions forced upon him. He has no solution to the tricks of the commission agents or brokers who invariably work in the interests of the dominating bulk-purchasers and traders, with whom they remain in contact daily. There is manipulation of weights and measures to the disadvantage of the producer and the charges for services rendered in processing and marketing by the dealers are improper and exorbitant. The simple-minded producer, therefore, prefers to remain in the village, sell away his produce over there and in the process strike a losing bargain. These factors also account for the difference between the earnings of the growers and the prices which the consumers have to pay.

### **Agricultural Cooperative Marketing**

The main functions of agricultural cooperative marketing societies are the following :

- (a) to facilitate sale of produce of the grower to his advantage;
- (b) to provide finance against the security of the produce;
- (c) to manage the transport of the produce from the village market;
- (d) to process and standardize the produce;
- (e) to arrange proper storage; and
- (f) to sell the produce at the right time and right price.

If the harvests are well and in abundance, all is well. provided agricultural marketing is well-set and well-organized. The need



for increase in production is rightly emphasized and is of paramount importance but the farmer can derive the hard earned due income only if it is accompanied by efficient marketing of his agricultural produce. The grower must have the satisfaction, nay assurance, that if he raised a bigger crop, it will bring him a corresponding monetary benefit.

### **Cooperative Commission Shops**

The first attempt in agricultural marketing was made in the twenties when cooperative commission shops were organized in a number of mandis (market places). The main objects of these societies were :

- (i) purchase and sale, on commission, of improved varieties of seeds, agricultural implements and other requirements of members; and
- (ii) sale on commission of the agricultural produce of the members.

The membership of a cooperative commission shop was open to registered cooperative societies and individuals who should be either owners or cultivators of land. The liability of the members for the debts of the shop was limited to thrice the value of their shares. The capital of the shop comprised (1) an undetermined number of shares; (2) deposits from members; (3) deposits and loans from non-members; and (4) realized profits.

These commission shops aimed at putting an end to the monopoly of the traders in the markets, their uncalled for deductions and commissions; with a view to rationalize the market and look after the best interests of the members. The credit societies which financed their member-farmers were required to persuade them to sell their produce through the cooperative commission shops which could give them advance to the extent of 75 percent of the tentative value of the produce, till its actual sale. This was helpful to some extent and these organizations got their foothold in the market. The cooperative commission shops did not make out-

right purchase like other commission agents and traders. They had to sell the produce to the bigger traders in the market for want of secondary marketing cooperatives and did not extend other facilities including entertainment and lodging as allowed by other traders in the market. They became jealous; did not tolerate rival activity of the cooperative commission shops and refused to buy the produce from them which had to face their boycott. The effect was that the members of the commission shop did not remain loyal and either preferred to sell their produce in the village or were attracted by the dealers/traders. The managing committee and the staff of the commission shops lacked business training, and committed irregularities. The cooperative commission shops were, therefore, unable to make their impact and eked out their existence.

### **Cooperative Sale Societies**

The main difference between the cooperative commission shops and the cooperative sale societies was that whereas the former class did not make outright purchase of the produce and undertook to arrange for its sale against commission without taking a trading risk, the latter took up the business of outright purchase of the produce directly from the grower and then sold it to the bigger dealers. A fixed minimum holding of agricultural land was a precondition for membership of the sale society. These societies undertook grading of produce and introduced sales through samples, whereby it was not necessary for the farmer to bring his produce to the market. The sale societies did not prove as successful as they would have been if there were upper level agricultural marketing organizations.

### **Cooperative Farming Societies**

About 250 cooperative farming societies existed at the time of the creation of Pakistan in 1947. The following year such societies were organized in the canal colonies of the Punjab Province on Government land, covering an area of 140,000 acres for

settling and rehabilitating 10,900 landless refugee agriculturists and each member was allotted  $12\frac{1}{2}$  acres of land. These societies offer agricultural operation services but actual cultivation is done by the members individually. The Government gave proprietary rights to the members in the seventies against payment at concessional rates. The societies achieved great success in increasing the yield per acre and in boosting agricultural production. One of their main objectives was cooperative marketing of the produce of member, and they arranged its disposal. Wheat, rice and cotton is mostly procured by the Government.

### **Multipurpose Societies**

Multipurpose cooperative societies were once a major group of marketing societies. These were hastily organized after Pakistan came into being to play the important role of making purchase of paddy, cotton and foodgrains and to handle their marketing. These societies, including those for exservicemen, exist at primary level. They aim at providing credit, purchase and sale of house-hold and farming requirements and, collection and sale, on commission, of agricultural produce of members. These societies functioned satisfactorily so long as they were under the direct supervision of the Cooperative Departmental staff but incurred heavy losses after that staff was withdrawn. The reason is that the persons appointed by the societies to run them were inexperienced, unaware of the business techniques, and did not command the confidence of the growers. Lack of good management turned out to be the cause of failure of these societies.

### **R.R.C. and A.M. Scheme**

The scheme for the reconstruction of rural credit and agricultural marketing (R.R.C. & A.M.) was launched for organizing Development Societies during the Third Five-Year Plan. The purpose was to improve the economic condition of farmers by providing a package of services to them to increase agricultural production and to arrange marketing of their produce. In view of that, the village primary credit societies, including agricultural supply service

ones, were amalgamated and their scope of activities was enlarged. Their membership increased and funds were strengthened. These societies linked with farm service centres at the mandi level and central cooperative banks at the district level to facilitate their agricultural and marketing activities. The Government also participated in the share capital of such societies and sanctioned loans for the construction of godowns. These societies did useful work in the beginning but are at a standstill at present.

### **IRDP Farmer Societies**

The object of this new venture, namely, the Integrated Rural Development Programme Farmers Societies, was to make the rural people more efficient in agricultural production and to raise their social status, by providing credit and agricultural marketing facilities. These were also required to arrange processing of agricultural produce and to set up agro-based industries. The number of these farmers' societies is 1,000 and their membership, share capital and working capital are 40,000; Rs. 1.98 million and Rs. 9.2 million respectively. These are realizing their objectives to a fair extent.

### **Sugarcane Marketing Societies**

The main objectives of these societies are to arrange the marketing of sugarcane of the members to sugar manufacturing mills on equitable terms and to assist them in improving sugarcane cultivation. Only such persons are eligible for the membership of a sugarcane marketing society as are above the age of 18 years and cultivate sugarcane. The society may advance loans to members on the security of their sugarcane and the personal surety of two members. It may be mentioned that the Government fixes the price of sugarcane every year, but the cooperatives still face practical problems in the sale of sugarcane to the sugar mills. There are about 700 Cooperative sugarcane marketing societies in Pakistan which have a membership of 23,645; share capital of Rs. 0.5 million and working capital of Rs. 1 million. Out of them, 520 societies with a membership of 18,500 are in the Peshawar and

Mardan districts of the North-West Frontier Province, and they are working successfully. These societies arrange to sell sugarcane and sugarbeet produced by the members through their associations at key points. Due to the successful functioning of this scheme, the North-West Frontier Provincial Government has allowed 100 per cent monopoly of the supply of the said produce to these cooperatives in the zonal area of Khazana Sugar Mills and 30 per cent of the produce in the zonal areas of all other sugar mills in Peshawar and Mardan districts.

### **Vegetable and Fruit Growers' Societies**

There are a small number of vegetable and fruit growers' cooperative marketing societies, associations and federations. Their main objects are :

- i) supply of expert advice and practical demonstration in better methods of vegetable and fruit growing and culture among the members ;
- ii) erection of cold storage plants, grading of the produce and supply of packing material ; and
- iii) marketing of produce of the members.

These societies exist more or less on paper and are doing nothing. However, a mention of a few may be of some interest. The Bara Mahmand Cooperative Development Society in the Frontier Province sells vegetables produced by the members as also non-members through auction just like a commission agent in the main vegetable market at Peshawar. It has survived because it has its own shop and sheds in the market and an efficient executive committee. The Frontier Fruit Growers and Marketing Association was intended to provide marketing facilities to owners of 'malta' and 'kinno' orchards and arrange packing, grading and dehydrating of their surplus produce. For that purpose, the management of a fruit grading plant provided by the F.A.O. was handed over to the society but this did not fetch results due to lack of skilled technical staff and its affairs were taken over by a Govern-

ment sponsored organization.

The Punjab Provincial Cooperative Marketing Federation was organized with its registered office at Lahore. Its objects are :

- a) to arrange the purchase and sale of agricultural and live-stock products etc. ;
- b) to act as commission, clearing and forwarding agents ;
- c) to establish processing plants ;
- d) to export and import goods ;
- e) to train persons in cooperative business methods ; and
- f) to diffuse market intelligence.

The Federation, however, failed to achieve its aims and was cancelled and liquidated after some years.

### **Quantitative Performance and Marketing Structure**

The various efforts made, as detailed, to introduce and develop agricultural marketing through cooperative societies failed to achieve any noteworthy success. Most of the types, attended to the marketing function for some time and thereafter bade farewell to it. They became stagnant and felt satisfied to find their names in annual statistics and reports. Thus, there has been a growing awareness about the important role which agricultural cooperative marketing societies could play but no concerted or determined attempts have been made to build up and plan their success. Resultantly, the quantitative performance of agricultural marketing societies at the primary and of some at the secondary levels has been unsatisfactory and discouraging. It is a matter of concern that there has been no integrated superstructure of agricultural marketing societies from the primary to the national level in the country. No scheme in particular was formulated for manpower development for agricultural cooperative marketing. It is only the Cooperative Training College at Faisalabad, Punjab, which holds short courses for managers, accountants and secretaries of cooperative farming, project area development and multipurpose societies. They are

trained in business management, account-keeping and administration.

### **Role of Government in Agricultural Cooperative Marketing**

The Government is convinced that the cooperative movement, which represents a system of economic democracy, has great potential as an instrument of national advancement and is, therefore, committed to give full support and assistance for its spread and development. It has rightly realised that the cooperative system must be encouraged and expanded for the development of modern agriculture. In view of the fact that the Government has given incentives to cooperative societies of small landholders, pertaining to extension services; supply of fertilizers; insecticides; improved seed; subsidized machinery and implements, for which preference is given to them over individual agriculturists. The Government even specially imported tractors and other agricultural machinery to meet the needs of cooperative societies.

### **Establishment of Federal Bank for Cooperatives**

The Federal Government of Pakistan promulgated the establishment of the Federal Bank for Cooperatives and Regulation of Cooperative Banking Ordinance in 1976, and it was later on passed as an Act. Among other functions, the Federal Bank has to carry on, do or act as mentioned hereunder :

- i) be the principal financing institution for meeting the agricultural credit needs of the cooperative movement through the provincial cooperative banks and multi-unit cooperative societies, which has a direct bearing on agricultural production and marketing ;
- ii) assist the Federal and Provincial Governments in formulating schemes for the development and revitalization of the cooperative movement in the country ;
- iii) assist the provincial cooperative banks in preparing their seasonal and developmental loaning programmes ;
- iv) lay down policy guidelines in relation to the business of

provincial cooperative banks and multi-unit cooperative societies, which they shall be bound to follow ;

- v) encourage the development of special cooperative projects, the objects or area of operation of which may extend to more than one Province ; and
- vi) carry out research on problems of rural credit and on all such other matters as have a bearing on the development of the cooperative movement in Pakistan.

The Act reorganized the cooperative credit structure by providing that there shall be one provincial cooperative bank in each province of the country which may have its branches at such places as are deemed fit. It dissolved all cooperative banks, not being Provincial Cooperative Banks, by whatever name called. All their assets, liabilities and undertakings stood transferred to and vested in the provincial cooperative bank of the Province within which such banks were registered and of which they were declared as branches. The Federal Bank for Cooperatives started with an initial share capital of Rs. 200 million, which was fully subscribed by the Federal Government, the State Bank of Pakistan and the provincial governments. The bank is carrying out its functions with its head office at Islamabad.

### **Cooperative Farming Act and Rules**

Besides the Cooperative Societies Act, 1925, the Government of Pakistan enforced a special self-contained Cooperative Farming Act and Cooperative Farming Rules, in 1976, to provide for the formation, working and promotion of joint and mechanized cooperative farming to boost agricultural production, to undertake marketing of agricultural produce and to set up agro-based industries. The total land to be pooled by the members was not to be less than 300 to 500 acres in different provinces and which should form one contiguous farm. The members have to place their entire holdings at the disposal of the society for all farming operations without affecting their ownership rights of such land, so dear to them. It was also provided that the provincial government may



reduce or remit stamp duty chargeable for the execution of any instrument by or on behalf of the society and any fee payable for the registration of documents or the court fee. The earnings of the society and the dividend paid to members were exempted from income-tax. After meeting all expenses :

- i) not less than 5 percent shall be set apart for the Reserve Fund and not less than 5 percent for the Development Fund; and
- ii) out of the remaining amount, 40 percent shall be distributed among the members in proportion to the value of the land pooled and 60 percent among the workers, working members and other staff of the cooperative farm as decided by the managing committee.

The Government organized 11 pilot cooperative farming projects in the country and the federal and provincial governments each gave a grant of Rs. 0.5 million to every such project by way of incentive. However, these projects and the farming societies otherwise organized under the Act did not make any headway. It is asserted by the cooperators that the scheme failed because the Government did not hold discussions or consultations with them. Nor did it gauge and weigh the difficulties and problems which lay in its functioning.

### **Procurement by Government**

The Government announces wheat procurement policy every year and the Food Department purchases any quantity of wheat of standard quality voluntarily offered by the cooperative societies, growers and traders, at the purchase centres, which number several hundred. According to the Wheat Policy of the Government for 1983-84, the procurement/support price of wheat has been fixed at Rs. 160 per 100 kgs., without bag. The full price of wheat is paid at the spot by the commercial banks appointed as paying agents, immediately on delivery of the stocks, which should conform to the given specifications. In addition to the price of wheat, the

cooperative societies are paid charges and provided facilities as below :

- i) expenditure incurred on transportation of wheat from the procurement point to the godowns of the department or the railway station, where delivery is taken, at the rate recommended by the District Food Controller and approved by the Deputy Commissioner concerned;
- ii) delivery charges at paise 90 per bag of 95 kg for storage/delivery in bags; and
- iii) empty bags are supplied by the purchase staff on a requisition made by the Assistant Registrar, Cooperative Societies concerned.

The Pakistan Agricultural Storage and Supply Corporation (PASSCO) also purchases wheat on behalf of the Government from the areas as specified for it. The Government purchases rice for the Rice Export Corporation of Pakistan under the Monopoly Procurement Scheme, through authorised Rice Dealers/Millers within the scheduled areas, at the price as notified every year. The production targets for wheat; cotton; rice; sugarcane and maize for the years 1983-84, are 12.2; 5.7; 3.6; 3.5 and 1.05 million tons, respectively.

### **Export of Agricultural Commodities**

Foreign trade, bothways, is controlled by the Government for which import and export licences are required. For the exports, controls ensure that surpluses are available for sale abroad. Annual fee has to be paid for registration as an exporter and it remains intact whether any exports are made or not, in any particular year. There is no discrimination for the Cooperatives in the field of licencing but should the cooperatives be interested, preferential treatment may be forthcoming.

### **Punjab Provincial Cooperative Cotton Corporation**

The Corporation was established in 1947, soon after the crea-

tion of Pakistan, with its head office at Karachi. Its objects were (i) to establish processing plants and mills, and (ii) to carry on import and export trade. The Corporation was a registered exporter and exported cotton handled by the cooperatives for some years and prospered but then it lost its trading links. Thereafter, it started acting as a customs clearing organization for various foreign trade deals including those of petroleum and fishery cooperatives and other trading firms. It is not doing any useful work now and exists in name only.

### **Cooperative Marketing Federation, Peshawar**

The Federation was registered as importer and exporter in the beginning and it exported fresh fruit worth about Rs. 8,000 during the three years 1962-63 to 1964-65 and imported tyres and tubes valuing Rs. 60,000 from the U.K. and Japan. The Federation was interested in the export of fresh and canned fruits, jams and tobacco but did not export anything. At present its membership is 58, share capital Rs. 0.25 million, working capital Rs. 0.35 million and reserve fund Rs. 0.21 million. It is at a standstill and not doing any work.

### **Makran Cooperative Date Growers Mill Society**

Pakistan produces a large quantity of different varieties of dates but large quantity was wasted due to development of bacteria insects and fungi. A date processing factory was, therefore, established at Makran, Baluchistan, with the assistance of F.A.O. for washing, drying, grading, packing of dates for home consumption and exports. It had some marketing difficulties in the beginning being at a great distance from the Karachi port but communications have greatly improved since then. The society is processing thousands of maunds of dates every year and is conducting sufficient export business.

There are just a few cooperative organizations in the country which intended or undertook export of agricultural produce. In fact, the cooperative movement is not ready and geared to under-

take export business, although there is vast scope for that, keeping in view the export data of agricultural commodities of the country at 7896.78 million US dollars for the year 1981-82, of which the following are the main items :

Commodity	Unit	Quantity	Value in Rupees
Rice	MT	951,028	4,127,911,000
Cotton	MT	231,413	2,938,184,000
Potatoes	Kg	3,207,287	5,788,000
Onions	Kg	33,893,085	55,182,000
Chillies	Kg	2,800,895	29,993,000
Vegetables	Kg	232,568	1,086,000
Mangoes Fresh	Kg	6,810,212	39,996,000
Dates Dried	Kg	9,733,034	66,037,000
Malta' Mosambi	Kg	6,600	27,000
Banana Fresh	Kg	10,833,789	19,094,000
Oranges, Kinno	Kg	24,769,901	48,207,000
Other Fresh Fruits	Kg	14,406,873	54,424,000
Dried Fruits	Kg	462,285	10,418,000
Tobacco & Cigarettes	Kg	1,923,395	31,211,000

### Problems of Agricultural Marketing

Agricultural cooperative marketing envisages availability of agricultural produce on such a scale as may warrant its organized disposal in the best interests of the growers. Generally speaking, the agricultural lands of the peasants are small and they always wish to produce a variety of crops. The producer is, therefore, attracted to sell his various crops in the village as the quantities are small and being ignorant of the marketing practices, he is averse to travel to a market place. Joint and mechanized farming is the solution to obtain large produce for cooperative marketing. The main marketing problems involved are that of (i) finance, (ii) processing and storage, (iii) grading and standardization, (iv) transportation, (v) marketing intelligence and guidance, and (vi) management.

### (i) FINANCE :

The financial needs of the cultivator have increased many fold from what they were some decades ago. The maximum credit limit allowed to him does not fulfil his requirements for agricultural operations. The gap is filled by private traders who, later on, get the farmer's produce on their terms. This leaves the cultivator in a poor bargaining position. It happens only because the flow of credit for production and raising of crops through the cooperative credit organizations is insufficient. Marketing societies have funds neither to make advances to the producers against the security of their produce to meet urgent needs, which the other traders do nor to make outright purchase when the cultivator so wishes. The credit system should be more effective and credit available to the greatest possible extent.

### ii) PROCESSING AND STORAGE :

Some agricultural yield such as rice, cotton, fruits and vegetables need processing before being put on sale. Soon after the creation of Pakistan, cotton ginning factories and rice husking mills, abandoned by non-Muslims who crossed over to India, were given to the Cooperative Department for the period of emergency and thereafter they were allotted to individuals who had left similar ventures in India. Cold storage facilities are essential for perishable products like fruits and vegetables which also help their out-of-season marketing and are a must for exports. Such mills, factories and processing units are necessary adjuncts of marketing societies but are non-existent. Except in the case of project area societies, for which Government advanced loans for the construction of godowns, there are no suitable storage arrangements. The village cooperatives should, therefore, transport the marketable surplus, soon after harvesting, to the marketing

society at the tehsil headquarters, which should have adequate storage arrangements.

### (iii) GRADING AND STANDARDISATION :

There is lack of quality control and grading. The produce of small cultivators, in various lots, get mixed up when put in a heap. In that event better price cannot be obtained for the superior quality. The introduction of grading and standardization regulations are thus necessary. Lack of grading and bad packing, specially in the case of fruits, and vegetables result in low-pricing and considerable waste. This aspect should be attended to by suitable trained persons.

### (iv) TRANSPORTATION :

Marketing societies do not have their own transport arrangements for collecting and storing the produce of the cultivators and this results in the payment of heavy charges on public transport. Furthermore, if the packing is loose, a part of the commodity goes waste on the way and the producer has to bear the loss. Bullock-carts are in use where the villages are not connected by metalled road. Lately, societies or individual peasants who own tractors use them for dragging its trailer, filled with produce, to the market. The best mode would be for marketing societies to have their own transport arrangements, which would be economical, quick and promote cooperative marketing.

### (v) MARKETING INTELLIGENCE AND GUIDANCE :

Marketing is a technical subject but no attention has been paid to afford marketing intelligence and guidance to marketing cooperatives and their members. Prices of agricultural commodities are broadcast and talks on agricultural operations delivered on radio and television and information published in the newspapers but that

does not inject marketing intelligence into the minds of the members of marketing cooperatives. Higher level cooperatives should arrange for such services and provide training facilities to them. Actually marketing research should be undertaken and the results thereof brought home to agricultural marketing societies and their members.

(vi) MANAGEMENT :

The management of agricultural marketing cooperative organizations, in fact of all cooperatives, is a question of honest and efficient leadership, prudent staff, training, guidance and control. Cooperative marketing societies are basically business organizations and their success mainly depends upon efficient management. The members who join a marketing cooperative have divergent outlooks different approaches to problems and diversified knowledge, skill and ability. The members of the executive committee who are responsible for fulfilling the obligations of the society are generally not conversant with business methods and lack efficiency. They are not found competent to lay down a sound policy for the society and ensure that its affairs are properly and honestly conducted. This also make them neglect their duties. The disloyalty of members also gives a setback. The managerial officers and staff, more often than not, do not possess the required qualifications and skill in marketing management, and the society cannot afford to pay the high salaries of qualified and experienced personnel. The result is that the society is not efficiently managed and may fail.

An experiment of establishing a Cooperative Institute of Management was made in the seventies under a bilateral agreement between the Government of Pakistan and the Royal Danish Government. Separate Danish management experts in credit, farming, consumer and marketing cooperatives functioned in the Institute, located at Lahore

for five years along with Pakistani counterparts. whereafter it was closed down. The most important objective of the Institute was to offer consultation and advice to cooperative organizations in all problems of business management. It imparted management concepts and techniques to the executives, office bearers and managerial staff of cooperative organizations; undertook research into management problems of cooperative and published manuals, course scripts, accounting records, forms and other instruments of management. No follow-up programmes were planned or executed thereafter.

## **Solution**

The foregoing treatise reveals that the scattered formation of agricultural cooperative marketing organizations was not done under any integrated vertical planning from the primary to the national level and there has been lack of training and orientation in the techniques of marketing business. The accredited remedy for the marketing problems of the growers lay in a well-knit structure ; capable of eliminating the undesirable middle men and dealers ; free of all uncalled for practices and, functioning on sound principles and procedures laid down by the cooperative movement. There should be a multifunctional cooperative society, covering marketing business, at the village level ; an agricultural marketing society at the tehsil level ; a provincial marketing association at the provincial stage and a national agricultural cooperative marketing federation for the country.

The days of single purpose cooperative societies at the village base have gone. We have learnt to tackle all the needs of an agriculturist through a single organization and not to worry him to knock at the doors of different societies for various problems. Thus a single multipurpose cooperative society in a village and even for more than one adjoining villages should be the order of the day to provide all possible required services to its members. All



existing different societies in a village or nearby villages should be amalgamated into a single multipurpose cooperative society. Such societies can raise larger membership; share capitals and funds; appoint the needed staff and be viable. The advancement of loans by the society to the farming members should be subject to the condition that they shall sell all their marketable produce through the society. The society should collect the produce of the members and keep an account of the produce received from each. It should transport the produce to the tehsil cooperative marketing society in bulk, for being sold and price paid to the concerned.

The **Tehsil cooperative marketing society** may purchase the produce if so desired by the concerned multipurpose society and make payment. In that event, the profits made by the marketing society on sale of such produce should be made over to the village society for rateable distribution to the members who had given the products, after deducting its expenses, commission and 5 percent contribution to its reserve fund. This will create loyalty and infuse trust in the producers. If the produce is not purchased by the tehsil marketing society, it should undertake pooling, processing, grading and storage and sell it to the best advantage of producers.

As it may take some time before the produce is sold, the marketing society may make an advance payment @75% of the prevalent market price of the produce to the producers, against the security of their produce, through the multipurpose society. All the agricultural multipurpose societies in a tehsil should be members of the tehsil marketing society and the latter a member of the provincial marketing association as also of the provincial cooperative bank concerned. Since the tehsil marketing society will be the back bone of the marketing structure, the Government should strengthen it by giving it a grant for the construction of a godown and purchase of trucks for collecting the produce and meet the cost of its marketing inspector and an accountant for five years.

There should be one **provincial cooperative marketing association** in each province, of which all the multipurpose and tehsil

marketing societies should be members and in its turn it should be a member of the provincial cooperative bank concerned and National Marketing Federation. The provincial marketing association may purchase produce from the tehsil marketing societies. It may, on the one hand, supply it to the Government under its procurement scheme, which may not make purchases from individual cooperative societies and, on the other, supply it to the National Cooperative Marketing Federation for reserves and export business. The provincial cooperative marketing association should have well trained and suitable staff; coordinate and guide the activities of all tehsil marketing societies in the province and assist them in employing experienced personnel. It should supply market intelligence and information bulletins regarding prices and market behaviour about various products at regular intervals to the tehsil marketing and multipurpose societies. The provincial government should purchase the shares of the provincial marketing association; grant subsidy for the construction of godowns and purchase of trucks and sanction grant-in aid for the salaries of marketing staff for three years.

**A National Cooperative Agricultural Marketing Federation** should be set up for the country. It should be a policy-making organization for the cooperative marketing sector. Besides the provincial marketing association, the Federal Government, the Federal Bank for Cooperatives and other provincial marketing societies should become its members. It should coordinate the activities of provincial marketing organizations; function as a clearing house for all marketing information and publish an agricultural marketing journal. It shall be the spokesman of the agricultural cooperative marketing and assist the Government in all planning in that respect. It will be responsible for the export of agricultural produce from the cooperative sector and have close contacts with the Export Promotion Bureau of the Government. The National Marketing Federation may become a member of an International Cooperative Trading Organization, the objects of which will be to engage in and encourage the development and

promotion of trade between cooperative organizations all over the world and to render all facilities as may be necessary for the sale and purchase of all products of cooperative organizations.

The Government should grant loans to the provincial cooperative marketing associations for setting up cold storages and processing units. The National Cooperative Union of Pakistan should take upon itself the task of training members of the cooperative marketing organizations in the country in grading and protecting the produce from spoiling and deterioration. It should also start short-duration training courses for the executive members and marketing officers of marketing societies in marketing operations and proper management of societies.

The experience of successfully managing agricultural marketing cooperatives will surely provide plenty of incentive and impetus for renewed and concerted efforts for thriving progress in the other fields of cooperative activity and help realize the cherished goals of better business, better economy and better standards of living for the millions.

# THE PHILIPPINES

SEVERINE I. MEDINA JR.\*

In a recent tripartite meeting of policy-makers, consumers and farmers' representatives concerning adjustments in the price of palay, (paddy) the farmer leaders were astounded when they were told that palay prices cannot be raised any further because food prices are a sensitive issue, food being considered by most consumers, especially the housewives, to be expensive and any further increase would have an unacceptable inflationary influence. And yet the prices of consumer commodities in the market go up, far more drastically than the farm gate prices. The farmers' share of the consumer peso, already being small, is getting less and less.

Farm prices have not kept up with rising production costs. In fact, the farmers' share of the consumer peso has decreased over the years because processing, packaging and marketing of the final products take up an increasing larger part of the end price.

The marketing of farm products poses a number of special problems that arise from or are due to conditions pertaining to production and the products themselves, the marketing system and consumer characteristics. To elucidate further, problems arise to changes in the consumer demand.

Darrah and Tiongsons noted that most intriguing marketing problem is that of keeping pace with the ever changing demand of consumers. People have varied tastes and characteristics.<sup>1</sup> Not only does demand vary from consumer to consumer, but even for a single consumer it may change over a time, sometimes rapidly, sometimes slowly. For a farm product marketing system to have a broad selection of products available at the right time, place, form, and the most important price tag, is already a major challenge.

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1. Darrah, L.B. and Tiongson F.A. UPCA, College, Laguna, 1969.

Another problem in marketing is reflecting demand. Higher prices call for the product and directs its flow to the market. The marketing system must reflect demand through prices and it does this task best when assisted by market information, that is appropriately assembled and distributed to all potential buyers and sellers.

Product characteristics are also major problems. The number of farm products are numerous, production seasonal, they are bulky and have high degree of perishability.

Increasing efficiency in marketing is directly related to the problem of product characteristics. The need to make these farm products through channels at the lowest possible cost, considering the various services performed poses problems.

The marketing of farm products would be simple if there was only one farm producing a single item or a limited number of different items. But there are more than two million farms in the country and a great number of different products are produced. This created a special problem in that the small amount of produce of individual farms must be assembled into larger volumes for efficient marketing.

With these problems at hand, individual farmers on their own would have little influence on this situation unless they combine with the other farmers into a cooperative. Through cooperatives, the farmer members will be able to increase their income and purchasing power through efficient marketing of their produce as well as the supply of their production inputs.

### **Evolution of agricultural cooperative marketing and its quantitative performance**

As Darrah puts it, "If some how, our *bayani* attitudes could be converted into vigorously active cooperative business organizations and our fiesta energies could be directed into increasing the production of agricultural products and patronization of cooperative organizations, fantastic changes in the production and marketing of farm products would take place." This statement is as true today as it was 10 or 20 years ago.<sup>1</sup>

1. Darrah L.E., *Marketing Products in the Philippines, UPCA, 1958.*

Interest in agricultural cooperative marketing dates as far back as 1924 when the first Tobacco Growers Cooperative Marketing Association was organized at Tuquegarao. Another association was organized at Isabela in 1925. The success of these associations led to the enactment of Act. No. 3452 or the Coopeative Marketing Law on December 9, 1927. The Bureau of Commerce and Industry was given the duty of organizing farmers into cooperative associations to help them sell their products. In 1939, there were 160 such associations with an estimated membership of 5,000 farmers. Of these organizations, only 35 reported to the Bureau their sales, amounting to Ps, 530,000. In effect only about 20 per cent of the associations were active.<sup>1</sup>

The chief causes of inactivity were reported to be insufficient working capital, poor management, inadequate marketing facilities, and the members' failure to comprehend the aims of cooperation.

On August 14, 1952, Republic Act. No. 821 created the Agricultural Credit and Cooperative Financing Administration (ACCFA) whose duties were to organize, supervise, and finance farmers cooperative marketing associations (FACOMA).

The main objective of organising FACOMAs was to group farmers into cooperative associations and to establish a marketing system controlled by small producers and to extend liberal credit to them. The organization of such marketing associations was made to enable farmers to have full control of their surplus products.<sup>2</sup>

ACCFA's character author set it to operate on a revolving fund of p100 million for the purpose of extending credit to farmers and their cooperative organizations but the government's release of funds was consistently low, the highest being 40 percent of the authorised amount. This, coupled with the fact that the lending operations were done simultaneous with the promotion, organization, and strengthening of cooperatives, aggravated the situation.<sup>3</sup>

1. Mabun, Cooperatives : Principles, Practices, Progress and Problems, Q. C. : Alemars Phoenix Publishing House, Inc. P, 97.
2. Gragasin, Jose V. 1973, Philippine Cooperative (Org. & Mgt.) and Agrarian Reform Program, Manila : GIC enterprises & Co., Inc.
3. Cruz, Dalmacio A. "A Comparative Study of Agricultural Cooperatives in the Phil.. Journal of Ag. Econ. & Dev., II. No. 1 (Jan, 1972) p 280.

Under the programme, 938 agricultural cooperatives were organized but only 364 were active.<sup>1</sup> Millions of pesos lent by ACCFA were not collected.<sup>2</sup>

ACCFA's first six years of operation accomplished some feat worthy of mention. The ACCFA-FACOMA tandem served as a showcase for rural progress in the country until 1960 when ACCFA suffered heavy losses due to unrepaid loans. As a consequence, the FACOMA's operation suffered serious setbacks. After 1953, some 300 out of the 356 FACOMAs ran out of funds, lost membership support and verged on total collapse.<sup>3</sup>

At the close of 1961-62 fiscal period, ACCFA's capital had been impaired by over p. 2.2 million and its assets consisted mainly of receivables in loans which by 1962 had accumulated to p81 million, of which p73 million were overdue.<sup>4</sup>

After the downfall, a reconstruction and revitalization of the ACCFA was sought through Republic Act No. 3844 or the Agricultural Land Reform Code, signed on August 8, 1963, which reorganized its functions and changed its name to Agricultural Credit Administration.<sup>5</sup> The land reform programme made the farmers' cooperative its major thrust. The ACA also enlarged its lending operations not only to finance cooperatives but also to finance farmers who are not yet members of cooperatives.<sup>6</sup>

However, the ACA, like its predecessor, failed to achieve the objectives for which it was created. It reported that of the 700 farmers affiliated with it, only 120 were operating.<sup>7</sup>

## RECENT DEVELOPMENTS

On April 14, 1974, President Ferdinand E. Marcos issued

1. Bureau of Coop, The Phil. Coop. Dev. Program: P. 1.
2. Ben Allanique, Chronological Dev. of Coop. in the Phil. TAGCOTEC Seminar, May 1977. p. 2 (Mimeographed)
3. Cruz; Cooperative Study. p. 263.
4. The Cooperative Effort in the Philippines and its Bearing on Current National Problems, Philippine Cooperative Advisory, July, 1964. p. 8.
5. Cruz, Dalmacio Cooperative Study. p. 263.
6. Sandoval P.R 1978 Public Policies and Programs in Phil. Agriculture ; Experiences, Developments and Future Directions (Second Lecture as SGV. Foundation Professor of Agribusiness),
7. BCOD. The Philippine Cooperative Dev. Program.

Presidential Decree No. 175 entitled "Strengthening the Cooperative Movement" which repealed all previous laws and entrusted to the Bureau of Cooperatives Development the former functions of the Cooperatives Administration Office. To operationalize and actualize the provisions of P.D. 175 Letter of Instruction No. 23 was issued on July 9, 1974 which embodies the regulations governing the organization, administration, and supervision of the Samahang Nayons and other pre-coops.<sup>1</sup>

At the onset of the programme in 1972, there were 801 marketing cooperatives. As a result of the re-registration requirement of the BCOD, 334 marketing cooperatives re-applied but subsequently as of December 31, 1981 only 133 were given registration and/or recognition.<sup>2</sup>

### **Objectives of marketing cooperatives/primary, regional, & national**

As embodied in P. D. 175, it was a declared policy of the State to foster the creation and growth of cooperatives as a means of increasing the income and purchasing power of the population in order to attain a more equitable distribution of income and wealth. The programme is based on three premises and being pursued in four stages with its ultimate goal of integrating all types of cooperatives into a whole system.

Under the present cooperative development programme, the Samahang Nayon (SN), the Area Marketing Cooperative (AMC), and Marketing Cooperatives are defined as follows :

1. The SM is a formal grouping of farmers who are residing and/or farming within the territorial boundaries of a barangay (village). It is a pre-cooperative organization which the new cooperatives development programme has desig-

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1. ACCI. Socio Economic Status of Members During Samahang Nayon Developmental Phase. Supported by the IDRC Canada and DLGCD. Philippines, 1978.

2. Pe, Ailsen Dorotea. R. 1982. The Growth of Cooperatives in the Philippines 1975-1981. Unpublished B. S. Ag. Econ. undergraduate Thesis



ned to overcome the factors which led to the failure of previous cooperative movements.<sup>1</sup>

2. The AMC is a voluntary business association of at least 10 SNs engaged primarily in the marketing of the produce of its members as well as the supply of their production inputs.<sup>2</sup>
3. The marketing cooperative is a business enterprise organised, owned, controlled, and patronised by a group of persons engaged in agricultural activities.

Marketing cooperatives would enable cooperative members to market their produce efficiently and procure their production inputs at lower cost and at the proper time. In addition, it aims to stimulate capital formation for development of activities and to institutionalize cooperation as a technique for improving the social and economic status of its members.

### **Present Cooperative Marketing Structure in the Country**

The system, a graphical presentation of which is provided in the illustration (Fig. 1), involves most of the country's small rice and corn farmers through their Samahang Nayan. It is also linked to a relatively large number of supply and marketing cooperative rural banks. It has nationwide coverage and structures at three levels, village, provincial regional and national.

Farmers who own and operate the **barangay**—based pre-cooperatives called the SN provide the basic foundation of the whole system. On the other hand, at least 10 SNs provide the membership for provincial level cooperatives called AMCs which are the service organisation for farmers through the SNs, while the Co-operative Marketing System of the Philippines (CMSP) is the national or central service cooperative for the AMCs. The system also includes Cooperative Rural Banks (CRBs) which provide

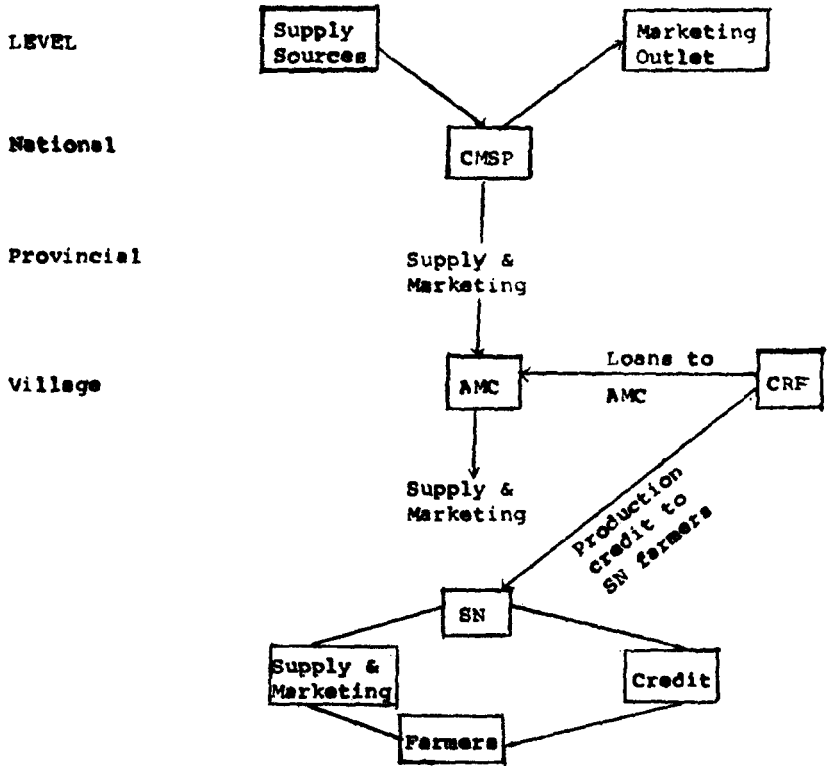
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1. Section 1 of P. D. No. 175.

2. Kilusang Payan sa Pangangalakal. BCOD/ DLGCD Fieldworkers Manual.

Fig. 1

COOPERATIVE MARKETING SYSTEM STRUCTURE



agricultural production credit to farmers through the SNs as well as loans to the AMCs.

### **Integration of cooperative marketing structure with other sections of the cooperative movement**

Within the system, the various activities of procurement, supply, marketing, and credit extension are linked with each other. The nature of linkage of combined procurement, marketing, and credit extension are outlined and illustrated in the following activities :

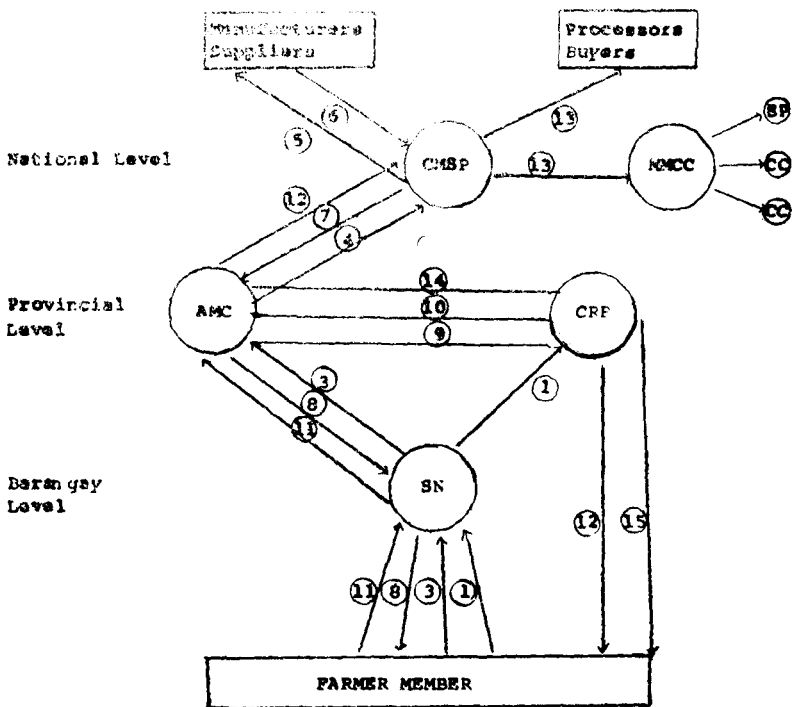
1. Farmer members of SN apply for loans with CRB through SN.
2. CRB evaluates and approves loans and issue cash and purchase orders.
3. Farmer members submit purchase orders to SN. Their SN consolidates input requirements from purchase orders and arranges for delivery from AMC to SN.
4. AMC arranges for the purchase and delivery of inputs with CMSP.
5. CMSP enters into agreement with manufacturers and suppliers for supply of inputs.
6. Manufacturers/suppliers deliver inputs to CMSP.
7. CMSP delivers inputs to AMC.
8. AMC delivers inputs to SN for farmer members.
9. AMC presents purchase orders to CRB for payments.
10. CRB pays cash to AMC.
11. SN members market to and/or deposit their produce with AMC through SN, SN arranges for the assembly and collection point and schedules for pick-up of farmers produce to or through CMSP.
12. AMC markets produce to or through CMSP.
13. CMSP markets produce to manufacturers, processors,

and to metropolitan centres and consumers cooperatives and pays AMC.

14. AMC deposits the payments for member' produce with CRB in the name of the farmer-member concerned and is informed accordingly.
15. CRB deducts whatever loans the farmer received and informs the farmers of their cash balance.

Fig. 2

SYSTEM ACTIVITY LINKAGES



## **NATURE OF FUNCTIONS OF MARKETING SOCIETIES AT DIFFERENT LEVELS**

### **Procurement of Supply or Inputs Equipment and Supplies**

#### **Baranggy/Village Level-Samahang Nayon**

- \* SN informs farmer members of prices of above items.
- \* Farmer members submit purchase of various orders.
- \* SN arranges for bulk purchase of various requirement with AMC.
- \* AMC delivers and informs SN of the date and delivery point.
- \* SN informs members accordingly.

#### **Multi-towns/Provincial Level AMC**

- \* Arranges bulk purchase of all SNs within the CMSP.
- \* Delivers required inputs to SNs at the agreed date and place.

#### **National Level CMSP**

- \* Arranges the purchase of required inputs from various manufacturers and suppliers.
- \* Delivers to AMCs the required inputs on the agreed date and place.

## **MARKETING OF PRODUCE**

### **Barangay Level-SN**

- \* Arranges for the marketing of the produce of members to or through AMC
- \* Informs member about the price, pick-up schedule, and assembly point of the produce.

### **Multi-Municipal/Provincial Level AMC**

- \* Schedules pick-up and transport of produce of farmer-members on the agreed date and assembly point of SN to AMS.
- \* Perform other marketing services such as drying. classify-

ing, storing/warehousing. milling, and packing.

- \* Markets the produce through CMSP and other market outlets.

### **National Level CMSP**

- \* Arranges for the marketing of produce from AMC.
- \* Supplies the needs of urban based consumers through other Consumer Cooperatives.
- \* Arranges for the export activities of cooperatives.

### **Size and Scope of Marketing System**

At the grassroots level over one million small farmers who produce the bulk of the basic agricultural products are members of Samahang Nayons, and a large number of some 2,400 organised SNs are members of registered AMCs located in major 51 provinces out of the total 75 provinces. In addition, there are 25 CRBs now licensed to operate by the Central Bank out of the 40 CRBs targeted to be established throughout the country.

To date, the business of AMCs and CMSP includes providing inputs for rice production, milling and marketing of rice. However, diversification is taking place on a much slower pace. The volume of rice handled annually by each of the AMCs scattered all over the country ranges from 50,000 to 200,000 cavans of 50 kilograms each. Fertilizer supplies range from a few thousand bags to 60,000 bags a year with chemicals fluctuating up to 400,000 a year. Total business from buying selling ranges from pesos3 to p4 million a year. As of 1980, the national CMSP had a total business volume of over pesos3 million. Exports are virtually nil as this is on a government-to-government arrangement.

### **Benefits Accruing to Farmers through Cooperative Marketing**

For a few highly successful and active SNs where marketing linkages with their AMCs are operational, farmer-members are benefiting in terms of better services, cost-reduction, and better prices. Except for rice, where the Government has set a minimum

price ceiling, through the years, prices have relatively remained stable except when recently NFA has not procured additional stocks because of previous bumper harvests, prices began to fall, and remained stabilized thereafter when the President ordered NFA to buy at government prices.

The cooperative marketing system is relatively new and if measured in terms of its total impact on the grains, vegetables, and livestock industry, is virtually nil.

### Financial Structure

The table below shows the growth of area marketing cooperatives since 1976 to 1981 in terms of AMC organized, registered, and became operational. It also shows the position of authorized, subscribed, and paid-up capital.<sup>1</sup>

Status and capitalization of area marketing cooperatives (AMCs) in the Philippines from 1976 to 1981.

Year	Status			Capitalization (Pesos thousand)		
	Organi- zed	Registe- red	Operati- onal	Authori- zed	Subscri- bed	paid- up
1976	38	24	16	58	13	4
1977	49	30	29	101	16	4
1978	50	38	32	101	21	7
1979	52	41	38	101	24	8
1980	53	42	40	126	25	9
1981	54	45	40	126	26	10

It may be pointed out that in terms of farmers' savings mobilizations, AMCs are fully capitalized out of the savings contribution of farmer-members of SN called the Barangay Savings Fund (BSF).

1, Pe, Aileen Dorotea R. op. crt. p. 41

## **Manpower Development for Cooperative Marketing**

Under the Cooperatives Development Programme, one institutional element that was pursued vigorously was the management and training assistance programme where a Central Management and Training Pool to be composed of top-calibre managers was organized. These managers may be assigned to actively manage cooperatives for the prime purpose of training understudies to assume management thereafter.

In addition, under the Governments' project on the development of the cooperative marketing system, 35 selected cooperative leaders were recipients of foreign trainings in the disciplines of cooperative management, marketing, and finance. Besides, these non-degree trainings in the US and other countries, local ones are also financed by the Government under the bilateral programme between the USA and the Philippines on the integrated agri-marketing project. In the long run, however, the Government intends to transfer this function to the cooperative sector as it attains full development.

## **Role of Government in promoting agricultural cooperative marketing**

In terms of defining the basic and more comprehensive policy, the Government has placed great emphasis and support to the development of the cooperative sector and made cooperatives a major thrust of government and as an integral component of the agrarian reform programme.

Initially, it has spearheaded the organization, development and registration of SNs and AMCs and other cooperatives and has given tax exemptions on sales and imports, exports to cooperatives. It has also given preferential treatment for cooperatives to supply rice, corn and other grains and other agricultural commodities to government agencies administering price stabilization and export programmes.

Furthermore, it has provided subsidies, grants-in-aids, loans and development funds as counterpart to foreign assistance for the development of cooperative marketing,



## **Problems Arising Out of Government Planning, Policies and Programmes**

During the period of organization, SN was the focal point of all activities in the barangay level, under the Ministry of Local Government and Community Development. However, after some time of organizational activities it was left somewhere by the people who organized it, until it was transferred to the Ministry of Agriculture. In the interim period, SN lost its enthusiasm and appeal for lack of much needed economic activities.

### **Problems and other Related Issues**

One of the special problems that deter the acceptance of cooperative marketing is the widespread practice of tying credit and marketing together. As long as local and other buyers finance in advance the operations of farmers in return for the products they will produce, cooperative marketing will not prosper. These well capitalized entrepreneurs have extensive and well informed marketing network and withstand keen competition. In fact, it has influence over some 80 per cent of the marketable rice within the country. The system, though highly effective in terms of assuring a constant supply of rice, has only benefited a few and has diverted their profits to centers for commercial and other industrial uses.

Another problem is product standardization. Even though the National Food Authority has laid down grades and standards for the purchase of grain and control of prices, the private sector has rejected these standards and prefers to cling to the basis of description, sample, and varietal characteristics.

In addition to NFA, the Government has constructed a large urban wholesale marketing feasible but, unfortunately; the Food Terminal, Inc. does not provide rice marketing services to small farmers.

Other problems that constraint the full development of cooperative marketing are that business and other operational linkages between AMCs and SNs are not practised and becomes even more

competitive because SN and AMCs are sometimes perform same kind of economic activities.

Most cooperatives are lacking in highly trained and experienced management personnel and cannot afford to pay their salaries because of keen competition from private capitalists.

CMSP is new and does not have adequate warehousing network to service the needs of various AMCs scattered all over the country. In addition it does not have a market intelligence network to provide accurate, complete, and timely price information so needed for effective marketing.

And finally, the cooperative system as a whole does not have training facilities for sufficient member and public relations activities.

### **Future prospects**

The cooperative marketing system is new but given a chance in time it should be able to upgrade the handling, storage, and milling, and transport of agricultural produce and because of improved efficiency from the village up to the national level it could introduce and enforce a system of grades and quality standards that benefit not only the producers but also the consumers.

Many cooperatives have been organized and many have failed, but the basic principles and values of cooperative marketing remains unchanged. Only time will tell when our cooperatives will play a more important marketing role.

# SRI LANKA

S. P. LIYANAGE\*

**T**HE Island Republic of Sri Lanka has a land area of 65,610 square kilometers and population of 14.8 million. Approximately 72 per cent of the population live in rural areas and most of the them subsist on small farm incomes.

The country is mainly an agricultural economy with an export oriented plantation sector, growing :

Tea	259,473 hectares	3.9% of land area
Rubber	227,373 „	3.5% „
Coconut	250,464 „	2.8% „
Paddy	510,677 „	7.8% „

and contributing largely to the gross national product. Agriculture provides 30 per cent of the gross domestic product and 50 per cent of the total employment. Rice, which is the staple diet of the population, is mostly produced locally on the basis of subsistence agriculture by peasant farmers. Sri Lanka is a nation of small farmers. Out of a total land holdings more than 60 per cent are less than three acres in extent and 40 per cent less than one acre in extent.

The export-oriented, heavily-capitalized plantation sector underwent a transformation in ownership in the early seventies owing to the land reforms introduced during that period. A ceiling of 50 acres of high land was imposed for each owner. All holdings exceeding such extents were vested in diverse type of state organizations and hurriedly registered cooperative societies. The latter institutions were subsequently liquidated in the late seventies and the land re-vested in other state organizations. These historical changes have been recollected and stated in order to place in the correct perspectives the scope of agricultural cooperative marketing in Sri Lanka.

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**Land Vested in State Sector Organizations under the  
Land Reform Laws**

Type of Crop	Land vested under 1972 legislation (acres)	Land vested under 1975 (amendment) legislation in acres			Total area in acres			
	Total area	% Sterling Company	% Sterling Company	% Rupee Company	% Rupee Company	%	%	%
Tea	139354	25	130474	67	107118	88	376946	38.4
Rubber	82563	15	23404	12	71431	32	117398	18.1
Coconut	112523	20	3695	02	2711	01	118929	12.1
Other	228972	41	37571	19	41553	19	308095	31.4
<b>Total</b>	<b>563411</b>	<b>100</b>	<b>195164</b>	<b>100</b>	<b>222813</b>	<b>100</b>	<b>681363</b>	<b>100</b>

Under these circumstances, it is obvious that agricultural co-operative marketing would continue to remain the exclusive preserve of the small-scale agriculturist. These activities will be dealt with under the sub-sectors of the agricultural sector of Sri Lanka.

The agricultural sector during last year has recorded a growth of 6.9 per cent in real terms. In the export crop sector, tea production recovered from a very low level and registered a 10 per cent growth. Coconut production rose by 11 per cent. Export performance of minor crops during the previous year was also encouraging. In contrast to these favourable trends, rubber production dropped by nearly 7 per cent. Among lowland crops, the paddy sub-sector was able to maintain its growth momentum by recording a 4.6 per cent increase in production.

### Tea

Eight public sector corporations boards/continued to account for a major share of both registered tea acreage and reported total

production. The unit cost of production increased amidst declining produce prices. The increase in cost of production led to a significant erosion in the positive producer margins enjoyed by the private sector.

### The bulk of the small producers

The potential sector for organized cooperative marketing continued to market their green leaf through various types of intermediaries, earning prices well below the guaranteed minimum price. The green leaf market is characterised by a high degree of imperfections, which have to be minimized to enable small holders to benefit by various schemes of assistance.

The cooperative societies organized to assist this sub-sector had virtually remained an institution to supply production inputs, particularly subsidized fertilizer on credit. With the gradual erosion of subsidies, the role of these institution has to be reviewed. Since they have been created essentially small to cater to these objectives, they would continue to remain weak to undertake processing and marketing without some radical reorganizations.

However, at this stage two societies in low-country tea-producing area have been performing very valuable service to small producers of tea.

Their performance during the last year was as follows :

Name of society	Membership	Share Capita Rs.	Green leaf collected £	Made tea marketed £	Profits earned Rs.
Morawake Korale Tea Producers Coop. Society	959	161,082	4,805,034	1,084,086	1,528,729
Galle Ganga-boda-Pattu Tea Producers Coop. Society	634	108,549	1,724,197	392,217	52,918

The cooperatives in this sector have been operating as service institutions for collecting, grading, manufacturing (i.e. converting the green leaf to made tea) packaging, advertizing, transporting, and marketing the produce of members through local brokers and agency houses. They are also engaged in supplying production inputs and credit to member-producers. The participation of the cooperative institutions in this sub-sector has been very marginal compared to private and state sector involvement. The heavy capital outlay required in processing and manufacturing of tea for export markets has been one reason for the conspicuous absence of cooperative institutions to assist tea small holders.

## **Rubber**

State-owned boards/corporations have among themselves more than 41 per cent of the rubber production in Sri Lanka. However, rubber production during the last one year indicated a decrease of 7 per cent. This suggests that the decline in total production occurred almost entirely in the privately-owned land, characterized largely by small holdings.

The drop in production is attributed to :

1. the growing incidence of senility in rubber trees;
2. the drought that prevailed in the country;
3. the marketing problems confronted by the small holders; and
4. reduction in the use of fertilizer

In general the Government came to the rescue of rubber producers by providing production subsidies, replanting grants and adjustment of sliding scales of export duties. These relief measures alone were not adequate to keep the small holders in production. With the withdrawal of the Chinese rubber pact for the sale of rubber, the Commissioner of Commodity Purchase could not accommodate the small holders, and the situation became precarious due to the absence of a foreign buyer. The prices offered by the private shippers were not attractive. The small holders were two

weak to negotiate for an adequate price, as most of them produced a low-quality product due to the absence of processing systems of high-quality sheet rubber.

Unlike in tea, the rubber small holders have been organized both under the specialized rubber producers cooperative societies and multipurpose cooperative societies (MPC societies) in Sri Lanka. The objectives of these societies are to assist the rubber producers in the production of high-quality sheet rubber by the installation of modern techniques of production and to procure the highest possible price.

Unlike the tea sub-sector, some of the producers of the rubber sub-sector are organised into 28 small producers cooperatives and 25 M. P. C. Societies situated in the rubber growing areas. These organisations are supported and serviced by a national apex Sri Lanka Rubber Producers Societies Union Ltd. It is a secondary organised at national level with branch outlets in the rubber growing areas.

This Union assists the member societies in the following activities :

1. transportation of produce from growing areas to markets situated in metropolitan cities.
2. grading, processing and packing them for shipment.
3. providing godown facilities.
4. finding both local and foreign buyers for the marketing of of members produce.
5. providing advances and short-term financial assistance to member societies.
6. providing incentive prices to producers of high-quality rubber, and technical assistance in upgrading their produce.
7. supplying production and processing chemicals and equipment.

The Union enjoyed a very comfortable market for its produce when the Chinese Rubber sale agreement was in force. Since its

withdrawal the Union has been experiencing tremendous difficulties in marketing its produce outside the network of private shippers due to the absence of contact with suitable foreign buyers.

This Union had been able to achieve the following trading results during the recent past, which could be considered as an index to services provided to member-societes, and incentive provided to producers of high-quality rubber.

Year	Quantity handled kilograms	Business turnover Rs.	Profits after the second payment to producers Rs.	Value of the second payment Rs.
1978/79	2,932,575	25,304,919	1,302,482	161,241
1979/80	2,120,182	18,912,399	90,864	116,042
1980/81	2,359,202	21,120,578	45,164	73,234
1981/82	878,341	14,690,827	114,748	169,629

Collecting, transporting, storing, processing for export, marketing and financing have been the cooperativised services offered by the union to member-societies. In the performance of these activities the union has been able to provide the following services in particular to assist the producers.

1. economies in transport of rubber from producer areas to the city markets;
2. warehousing and storage facilities for rubber awaiting shipment.
3. sorting, grading and processing, thus qualifying the produce for an enhanced price. and
4. providing short-term financial support to ease liquidity situation of the member-societies.



## Coconut

Coconut production increased by 11 percent over the production of the previous year. The increase in subsidies given by the State during the past had been responsible for a major stimulus to planting activity during the previous year. The removal of restriction on export except coir fibre was a characteristic move towards a producer oriented policy.

The government had introduced a very ambitious programme for the rehabilitation of the coconut plantation industry in the setting up of the Coconut Development Authority and its all other affiliated organizations.

Out of the three major export-oriented plantation industries, coconut industry could be characterised as a small holders plantation industry. The following figures of the area, extent and size of holders will demonstrate this fact.

Extent of holdings	Total acreage	Percentage on the total acreage
less than 1/4 acre	6,194	0.5
between 1/4—1/2 acres	18,322	1.6
„ 1/2—1 acre	42,205	0.7
„ 1—2 1/2 acres	158,937	13.8
„ 2 1/2— 5 „	177,807	15.4
„ 5— 10 „	176,541	15.3
„ 10— 25 „	161,603	14.0
„ 25— 50 „	102,397	8.9
„ 50—100 „	92,876	8.0
„ 100—250 „	10,752	9.3
„ 250—500 „	63,501	5.5
over 500	44,593	3.9

Source : *Agricultural Census*

Holding above 50 acres are now virtually vested in the State sector due to the operation of the Land Reform laws.

The following figures disclosing both production and trends of the market will reveal the scope for cooperative activities in this sub-sector :

Year	Population (in millions)	local consumption in million nuts	export in million nuts	total production in million nuts
1979	14.5	1,832	561	2,393
1980	14.7	1,784	942	2,026
1981	14.9	1,820	439	2,259

There had been a considerable decrease in export of coconut products during the recent past due to the decrease in production and the increased demand from the local market.

The coconut plantation industry had continued to seek the assistance of the cooperative system during the last four decades to organize itself in order to eliminate the middlemen operators. These moves were conspicuous during the period when the state was not providing assistance to the industry and now with the installation of the Coconut Development Authority the reliance on cooperatives is naturally decreasing.

In addition to MPC societies undertaking marketing of coconut there are 11 other coconut producers' cooperative societies. Of these, the following cooperative societies undertake the production of desiccated coconut for export through private shippers and the production of coconut oil mostly for the local market.

Name of the society	Production capacity metric tons	Actual Production metric tons	Capacity Utilization
Sandalankawa MPCs	1,080 600	647 222	60% 35%
Murawila Coconut Producers' Coop. Society	1,012	744	74%
Dunagaha Coconut Producers' Coop. Society	1,100 1,350	902 483	82% 36%
Nattandiya Coconut Producers' Coop. Society	1,080	706	65%
Kammalpattu Coconut Producers' Coop- Society	696	786	113%

The following table gives the quantity of dessicated coconut produced during different years in one decade :

Year	No. of mills operated	Total production of D.C. in metric tons
1971	78	54750
1975	65	51582
1980	65	31860
1981	69	40685

The seven mills owned by the above named cooperative societies shared among themselves approximately 12 per cent of the DC production of Sri Lanka.

The following table gives the coconut oil produced by the cooperatives during last year.

Name of the society	Production capacity	Estimated production	Capacity utilization
Sandalankawa MPCS	560	319	57%
Dunagaha Coconut Producers' Cooperative Society	640	20	3%
Nattandiya Coconut Producers' Cooperative Society	213	139	66%

Coconut producers' cooperatives pioneered the processing and marketing of coconut products from early 1940's. The MPC societies in the coconut triangle joined in the marketing of fresh coconuts from early 1970. These primary cooperative societies assisted the coconut producers not only in processing and marketing of coconut products but also in the supply of inputs for the cultivation of coconuts and to a very small extent even in the redemption of coconut lands owned by the members.

D. C. production and distilling of coconut oil are activities which could be undertaken only by large coconut land owners owing to the very capital intensive nature of production processes. The smaller producers had either to sell the fresh nuts to middlemen traders or mill owners for processing for export or marketing

locally for edible purposes. Obviously small producers could not obtain attractive prices as they were in the clutches of middlemen collectors or private millers who continued to advance money against the anticipated crop which was disposed of as raw material for millers. Hence the formation of primary cooperatives helped to process the produce and meet the demands of an export market or even to eliminate the middlemen traders in the marketing of fresh nuts in the local market for edible purposes.

The cooperative organization in this sector was a two-tier organization with the primary society at the base and a secondary society (union) as the national apex. This union was registered in the year 1942. Its objectives are :

1. to provide marketing facilities for the coconut producers, by the setting up of mills for the production of D. C. oil copra and all other by-products;
2. to assist in the improvement of the quality of products,
3. to produce soap and other ancilliary products; and
4. to assist the cooperatives to enter the foreign market for the export of its produce so as to obtain the highest possible price by the elimination of all middlemen organizations.

## **PADDY**

The paddy production of last year recorded an increase of 4.6 per cent and the improved harvests resulted in substantial reduction of rice imports.

Paddy marketing has remained a state monopoly for well over four decades. The primary cooperatives, first, the agricultural production and sale societies and, subsequently, the MPC societies served the State and subsequently the Paddy Marketing Board as agents for collection and handing over to the State. Until very recently, the cooperatives did not service the producer members as their agent, but as the agent of the State either in the provisions

of a guaranteed minimum price to the producer or in the collections of a staple commodity by the state.

The recent trend in the production and procurement of paddy Marketing Board (P.M.B) is as follows :

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<u>Year</u>	<u>Total estimated production in million bushels</u>	<u>Procurement by the P.M.B. in million bushels</u>
1972	62.4	26.3
1973	62.9	22.9
1974	76.7	20.8
1975	55.4	11.5
1976	60.1	12.8
1977	80.4	24.5
1978	90.1	32.3
1979	91.9	25.9
1980	102.2	10.1
1981	106.8	6.1

Adopted from the statistical bulletin of the Paddy Marketing Board.

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Until the year 1979 approximately 85 per cent of the procurement of paddy by the P.M.B. was through cooperatives. However, with the liberalization of paddy marketing and the removal of the monopoly vested in the State, the share of the procurement by the P.M.B. dropped as much as the share of the procurement by the cooperatives because of the increase in the open market price of the paddy far above the guaranteed price offered by the State.

The appointment of private agents by the P. M. B. for the collection of paddy in competition with the cooperatives and the involvement of P. M. B. directly through its staff in the purchase from producers and on tenders to meet the open market competition led to gradual decrease of the cooperatives' share of collection for the P. M. B.

Many cooperatives, taking advantage of the liberalization of marketing, changed over its activities to its more legitimate role of acting as the agent of their member producers to obtain the highest possible price in the open market. The cooperatives managed to accomplish this role by direct sale of the produce to cooperatives in non-paddy-producing areas and stockpiling for future lean periods. This led to the development of a very salutary system of inter-cooperative trading with the country. The cooperative paddy mills 43 of them are in operation which had all these years milled paddy for the P. M. B, changed over to milling their members' produce into rice so as to obtain an attractive price from consumer cooperatives in non-paddy-producing areas, and even from the private sector.

The liberalization of paddy marketing with an attendant free market higher price than the guaranteed price had adverse effects on the recovery of production credit advanced to producers by the cooperatives. A heavy percentage of default has been reported since then.

The absence of a clearly defined sector or an area of activity for the cooperatives in any of the agricultural marketing activities militates against any planned action. A historical feature of cooperative marketing in Sri Lanka had been that such activities commenced at the initiative of the Central Government. The new class of small producers, created by the operation of the Land Reform laws, with a ceiling of 50 acres of holdings, has not been showing any interest so far to organize themselves into cooperatives in order to obtain higher incomes by the elimination of middlemen millers and traders.

In addition to the processing and marketing of export oriented crops and paddy, the MPC (primary) societies, assisted by its national marketing apex, the Sri Lanka Cooperative Marketing Federation, which undertook the supply of limited assortment of consumer commodities, have been primarily engaged in marketing a variety of agricultural produce both in the foreign and local

markets. Betel export to Pakistan and the export of several varieties of spices form the bulk of its marketing operations.

The marketing federation has on its rolls 310 member primary cooperatives. A large percentage of them are MPC societies. The federation enjoyed a monopoly of betel export up to the end of the year 1977. Since then two other State corporations have entered this field in competition with the federation. However, due to its pioneering activities it has been able to conduct the following business in competition with State organizations and obtain an attractive price for betel producers, every one of whom is a small producer :

<u>Year</u>	<u>Quantity exported baskets</u>	<u>Sale price of exports (Rs.)</u>
1978	18,767	100,92,138
1979	40,594	204,26,345
1980	27,407	152,57,884
1981	27,252	191,40,707
1982	26,239	140,37,916

The marketing federation had also pioneered the export of several varieties of spices, and helped to earn higher prices for the producers who are members of MPC societies. An index to such activities is as follows :

<u>Year</u>	<u>Export value realized (Rs.)</u>
1978	12,49,592
1979	16,42,717
1980	12,10,703
1981	6,59,906
1982	26,10,896

All these commodities were exported raw, without processing, in keeping with the traditional marketing methods. In spite of such limited activity, the federation helped to pay the producers a

higher price by the elimination of a long chain of middlemen traders who had formed a ring in the marketing of minor export crops.

The cooperative marketing activities were in most instances the result of State intervention and sponsoring under different development programmes. In most instances and drives, the producers responded magnificently. This characteristic killed the initiative of the public in spontaneous drives to organize themselves.

When the State is inactive in organizing the producers, the national cooperative apex organizations unfortunately tend to fail to take its place.



# THAILAND

Mrs. PONGTHIP HOMCHAICAEW\*

## General problems in agricultural marketing

**T**HAILAND is an agricultural country, like the majority of other South-East Asian countries. The main cash crops of the country are paddy, maize, tapioca and sugarcane. The important problems in agricultural occupation concern mostly with production and marketing. The production problem is due to the fact that the farming method always relies on the weather which is usually changeable. Thailand, as a developing country, cannot do much to prevent the defect of natural factors. The marketing problem is not less important than the production problem, and both aspects have close relation with each other. The major problem of agricultural marketing is the price fluctuation, and farmers are usually unable to change or improve it. Consequently it resulted in loss to the farmers who have to sell their produce at the price lower than production cost, or they may meet the problem of excess supply. Moreover, there are other problems concerned with marketing activity such as :

- 1 Communication system related to agricultural marketing has inadequate efficiency.
- 2 Lack of equipments for storage and for processing of agricultural produce such as warehouse, rice mill, silo etc.
- 3 Equipments for transportation of agricultural produce from some producing area to the marketing area are inadequate. It, therefore, wastes time and sometimes spoils the quality of the produce.

## Evolution of agricultural cooperative marketing and its quantitative performance.

Agricultural marketing cooperatives have been developed since

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\* *Coop. Promotion Dept., Ministry of Agri. & Coops. Bangkok, Thailand.*

1938 to serve the needs of the farmer members for marketing of their produce. All marketing cooperatives were organized on limited liability. The most numerous of all, but still not so big in number, are paddy marketing cooperatives. There are primary cooperatives which are collecting paddy and provincial federations of agricultural cooperatives which are operating rice mills. In 1955, there were 117 agricultural marketing cooperatives.

The agricultural marketing cooperatives also granted short-term loans against the standing crops to the members for harvesting expenses. The loans will be repaid by the delivery to the marketing cooperatives of paddy, the value of which should be equal to cover the whole amount of loan.

The government, in 1968, proposed the policy to amalgamate the small credit cooperatives into the bigger units. The objective of this policy was to promote the large-scaled business in cooperatives and, therefore, to give business service to their members more efficiently. Consequently, since 1969 the small credit cooperatives have been amalgamated. However, the agricultural marketing cooperatives had not been amalgamated and were still a type of cooperative which undertook marketing business as its most important business. Simultaneously, the government promoted the setting up of national cooperative federation which also included the wholesale cooperative store, and was later registered on August 22, 1969 and named Cooperative Marketing and Purchasing Federation of Thailand Ltd. (CMPF). It was the first agricultural cooperative federation of the country.

In 1972, the government not only proposed the policy to amalgamate the small credit cooperatives into the big agricultural cooperatives but also advised every other types of cooperatives concerned with the agricultural activity to be amalgamated. The Agricultural marketing cooperatives have been, therefore, amalgamated into the big agricultural cooperatives since 1973. They have undertaken multipurpose business, and marketing activity is the main business of the cooperatives.

In 1975, the business in maize collection of CMPF increased. It, therefore asked for loan from the Bank for Agriculture and Agricultural Cooperative (BAAC) to buy silo for maize fumigation. However, according to BAAC regulation, loan would be only given to farmers or farmer institutes. To get the mentioned loan, CMPF repaid the paid up share capital to the consumers cooperativss. The remaining share capitals were only of agricultural cooperatives'.

Later on, on October 1, 1976, the name Co-operative Marketing and Purchasing Federation of Thailand Ltd. (CMPF) was changed to Agricultural Cooperative Federation of Thailand (ACFT).

All agricultural cooperatives, including the provincial federations, are affiliated to ACFT. At present, the ACFT undertakes to seek market outlets for farm products as well as to provide agricultural requisites.

The marketing business volume of ACFT in the past decade is shown in Table 1.

**Table 1. Marketing business volume of ACFT**

Financial year (April-March)	Collection of agricultural produces (ton)		Supply of agricultural in-puts		
	Maize	Rice	Fertilizer (ton)	Farm chemicals (million baht)	Others (million baht)
1973/74	97,163	—	23,992	.609	3.703
1974/75	98,969	2,000	21,971	15.389	4.267
1975/76	123,216	20,167	31,727	17.299	9.365
1976/77	83,088	60,723	35,893	17.703	10.071
1977/78	20,000	65,488	61,938	15.526	8.609
1978/79	50,842	10,129	76,425	20.481	6.502
1979/80	60,670	82,000	55,350	43.075	5.315
1980/81	75,767	64,463	55,633	78.559	5.326
1981/82	97,227	80,000	56,716	89.590	7.882
1982/83	13,272	150,987	27,596	13.630	1.985
Average	72,022	59,551	44,724	31.186	6.303

In the past decade, ACFT annually undertook marketing of approximately 72,000 tons of maize and 59,551 tons of rice. It also provided agricultural inputs to agricultural cooperative members such as fertilizer, pesticide, insecticide and other goods. Fertilizer was the most important goods distributed, the average volume being 44,724 tons annually.

### **Structure and function of agricultural cooperative in marketing procedure**

It can be said that organizing of an agricultural cooperative structure has supported greatly the marketing system of agricultural cooperatives. The agricultural cooperatives in Thailand have been vertically organized at three levels : primary societies at the local or district level, secondary societies at the provincial level, and the apex societies at the national level.

**1. THE PRIMARY AGRICULTURAL COOPERATIVE SOCIETIES.** They consist of individual farmers, divided into various groups of villages or tumbols for training purpose, business activities or determination of proposals to be forwarded to the board of directors. At present, there are 1,012 primary agricultural cooperative societies.

The primary society has multipurpose functions to fulfil the needs of members. Its major business activities consist of credit business and marketing business. The marketing business can be divided into two main activities :

**(1) Purchasing business.** The society will survey the goods requirement of member farmers and supply the members with the required goods. The goods that most of agricultural cooperatives sell are agricultural supplies such as fertilizers, insecticides, pesticides and other necessary agricultural tools, including consumer goods.

**(2) Agricultural produce collection.** The produces that the agricultural cooperatives mostly collect from its members are paddy, maize and rubber. Most cooperatives have necessary equipment for collecting paddy. The paddy may be collected from members

by purchasing and/or loan repayment. The collected produces are sent to provincial agricultural cooperative or provincial cooperative federation for processing. However, some agricultural cooperatives have their own rice mills. At present, there are 15 rice mills with a production capacity of 334 tons per day. So these agricultural cooperatives also process their own paddy.

**2. THE SECONDARY AGRICULTURAL COOPERATIVE SOCIETIES.** They are agricultural cooperatives or cooperative federations at the provincial level. According to the present cooperative law, three or more primary agricultural cooperative societies can form a cooperative federation at this level. These secondary federations undertake joint activities on behalf of their primary affiliates in the processing of agricultural produces, especially in paddy processing. Most of them have their own rice mills. At present, there are 59 provincial cooperative federations operating 28 rice mills with a total capacity of 1,654 metric tons per day.

The main activity is to collect the paddy from primary societies and other farmers and then process and sell to ACFT or cooperative stores, traders and others.

**3. THE NATIONAL AGRICULTURAL COOPERATIVE SOCIETY ACFT,** is the apex society of the agricultural cooperatives. The membership includes agricultural cooperatives at both the primary and the secondary levels.

ACFT is the national level agricultural cooperative that undertakes marketing business for the agricultural cooperatives of the country. It undertakes bulk purchase of agricultural inputs to supply to the affiliated primary agricultural cooperatives. The major agricultural inputs, are fertilizer, pesticide and insecticide. The sale volume of fertilizer is approximately 44,700 tons each year, and mostly it is imported. It also seeks both local and foreign markets for agricultural produces of affiliated cooperatives. The important agricultural produce exported by ACFT are maize

and rice. Furthermore, ACFT, in joint venture with Japan cooperatives has established a pesticide factory to serve the cooperative members and general farmers.

All the three level agricultural cooperatives mentioned earlier have the main duty of coordinating and promoting agricultural cooperative marketing and related activities.

So far, there is no marketing linkage with other sections of the cooperative movement. What is done has only the small business volume, such as selling agricultural produces or processed products, especially rice, to the cooperative stores which order permanently or temporarily.

Rice marketing business of the agricultural cooperative movement, as described above, has been continuously practised until the year 1980. Since 1981, the government has proposed a new system of paddy marketing. The idea and details of the new marketing system will be mentioned later.

## **Exports**

ACFT collects and seeks both local and foreign markets for maize and rice. It also seeks local market for other produces temporarily such as pearl, barley, dry chili etc. It also tries to propose a project to collect and seek local market for garlic.

As mentioned earlier, the major agricultural produces exported by ACFT are maize and rice. The export volume of ACFT in the past decade is given in Table 2.

**Table 2. Export volume of ACFT**

Financial year (April-March)	Volume of produces exported (ton)	
	Maize	Rice
1973/74	97,163	—
1974/75	98,960	2,000
1975/76	123,216	20,167
1976/77	83,088	60,723
1977/78	19,775	53,861
1978/79	50,842	9,648
1979/80	21,192	81,428
1980/81	49,863	41,094
1981/82	88,140	29,141
1982/83	4,310	3,920
Average	63,655	33,554

In 1973—83, ACFT annually exported maize and rice at the average volume of 63,655 tons and 33554 tons respectively. Comparing export volume to the amount of produces collected, ACFT exported 88.38% of the maize and 56.34% of the rice.

The importing countries that order maize from Thailand through ACFT are Japan, the Middle East countries and Asian countries etc. ACFT sells rice mostly to the Asian countries, Senegal and Japan.

#### **Role of the government in promoting agricultural cooperative marketing.**

The government has played an important role in promoting agricultural marketing of cooperatives at all three levels since

they have initiated the marketing business in their societies. The major assistance has involved capital fund, technical and practical advice as well as training service.

In 1977 the government provided long-term loans to agricultural cooperatives to set up 500 storages for collecting paddy and other produce from members. At present, the agricultural cooperatives have 664 warehouses with an aggregate capacity of 315,425 m. t.

### **MARKETING PROCEDURE FROM INITIAL PERIOD TO THE YEAR 1980 :**

The marketing system previously practised by the cooperatives was not well organized as a movement. The primary society got a loan from the Cooperative Promotion Department (CPD) or the Bank for Agriculture and Agricultural Cooperative (BAAC) for purchasing paddy from members and non-members. The purchase price was fixed by each society at a certain level providing some margin for the selling price. The produce purchased by the primary society will be sold to the provincial cooperative federation or to private traders.

At the provincial level, the provincial federation got the marketing loan from CPD, and other sources for purchasing paddy or other produces from the primary society and other farmers, then processed and sold to ACFT or cooperative stores, traders and others.

At the national level, ACFT has functioned as the exporter of maize and rice purchased from the provincial federations and primary societies. ACFT was financed by CPD.

### **WEAK POINT OF AGRICULTURAL COOPERATIVE MARKETING :**

The practices mentioned above have shown the agricultural cooperatives' weak point : the cooperative activities are individual and limited in each cooperative and level.



The agricultural cooperative movement is not strong because the cooperative at each level tries to take advantage of a certain amount of members' produces, Investment and profit making figure four times—first at the member-farmer production, secondly at the paddy collecting of primary societies, thirdly at the provincial federation processing and fourthly at the national distributing—so the cost of the final product is higher than the private trader's. Furthermore, it is a split of fund supplies to member farmers, cooperatives at district level, provincial level and national level for the same lot of farm products in business activities.

The weak point as discussed above obstructed the marketing progress and led to the confrontation with private trader in marketing channel.

In 1981, CPD decided to stop the old system of rice marketing of the agricultural cooperatives and promoted the new programme for the agricultural cooperative movement named Production Credit and Marketing Linkage Programme for Rice. Cooperatives at all levels will work together as a cooperative movement. All bargaining power was cooperatively combined to reduce the marketing costs of farm products. Under this programme, a reasonable price support scheme has been applied. CPD the authorized body to implement the programme, set up an Agricultural Cooperative Rice Marketing Promotion Centre to operate, advice and control the marketing activities of the movement. The Centre will operate only for a few years and after that ACFT will take over these responsibilities. BAAC and CPD are the main sources of funds to finance primary societies for paddy collection.

Under the programme, only primary societies are authorized to collect paddy from member farmers in the form of purchasing or receiving loan repayment, and then grade paddy and deliver paddy to the nearest rice mill of any primary societies or provincial cooperative federations. The rice mill of the provincial federations will undertake only the processing of paddy and deliver the milled rice to ACFT without purchasing and selling. ACFT is responsible for seeking market of milled rice of the whole move-

ment. The final price at which the produce is sold by ACFT, minus all expenditure, is the price that the member-farmers get for their produce sold through the agricultural cooperative movement. It can be said that the programme has adopted the pooling system for the cooperative rice marketing operation.

In the first year (1981), the national level ACFT, 19 provincial cooperative federations and 339 primary agricultural cooperatives with their facilities, 37 rice mills and 510 paddy warehouses have been selected to cooperate in the pilot programme.

From the result of the programme in the first two years, it was found that the programme helped to support greatly the paddy price in the market and consequently increased the income of most farmers.

Volume of business for rice of agricultural cooperatives of the programme in 1981 - 1982 is given in table 3.

**Table 3.** Paddy marketing under Production Credit and Marketing Linkage Programme for Rice of Fiscal year 1981—1982.

Item	Quantity (Kg.)		Value (Baht)	
	1981	1982	1981	1982
<b>Non-glutinous Paddy</b>				
100 per cent second	—	784,021	—	3,320,364
100 per cent third	35,428	918,299	132,149	3,733,292
5 per cent	7,180,408	27,964,021	25,834,805	107,077,295
10 per cent	17,791,712	35,942,416	61,200,157	132,924,056
15 per cent	23,830,433	58,008,002	79,747,411	208,853,734
25 per cent	32,623,792	84,044,837	106,299,735	295,980,077
<b>Glutinous Paddy</b>				
Long grain	8,480,483	7,689,203	27,292,093	25,615,128
Short grain	40,037,221	18,107,877	124,972,767	57,543,746
<b>Total</b>	<b>129,979,477</b>	<b>233,458,676</b>	<b>425,479,117</b>	<b>835,047,746</b>

Sources : Cooperative Promotion Department

With the same idea and practices as Production Credit and Marketing Linkage Programme for Rice, the government, in 1983, decided to initiate the programme for maize marketing. It is hoped to increase the profit margin in the maize production for farmers, thereby raising their incomes and socio-economic well-being.

### **Manpower development for cooperative marketing**

The main institutes responsible for the development of manpower in the cooperative movement are the Cooperative Promotion Department (CPD), the Cooperative League of Thailand (CLT) and the National Agricultural Cooperative Training Institute (NACTI). These three institutes work coordinately in giving advice, education and training to all people connected with cooperatives such as cooperative members, cooperative committeemen, cooperative staff and government officials.

**COOPERATIVE PROMOTION DEPARTMENT.** The main task of CPD is to educate and train cooperative members, committeemen and staff of all types of cooperatives as well CPD's officials. However, education and training are mostly concentrated on the agricultural cooperative activities.

**COOPERATIVE LEAGUE OF THAILAND** CLT concentrates on educating and training cooperative committeemen and staff of all types of cooperatives. Training is mostly in the form of seminars. Since 1984, the education and training programme for agricultural cooperatives, which used to be the responsibility of CLT, has been assigned to NACTI. At present, CLT is responsible only for educating and training cooperative committeemen and staff of every type of cooperatives except agricultural cooperatives.

**NATIONAL AGRICULTURAL COOPERATIVE TRAINING INSTITUTE.** NACTI was established in 1980, with financial assistance from the European Economic Community (EEC), to conduct training for committeemen and management staff of agricultural cooperatives. In practice, CPD sets up the plan and

proposes budgetary requirement to support the cooperative staff training programme. It also cooperates with NACTI in setting up the training procedure.

In 1981-83 NACTI conducted training for committeemen and management staff by cooperating with CLT. NACTI takes the responsibility for training of committeemen and management staff of agricultural cooperatives which are in the Restructuring Programme for Agricultural Cooperatives in Poor Financial Condition.\* The remaining cooperatives, committeemen and management staff will be trained by CLT. Nevertheless, since 1984 NACTI has been responsible for training committeemen and management staff of all agricultural cooperatives.

It can be said that in the past three years (1981-83) CPD, in collaboration with NACTI has played a great role in training the management staff. The team of management staff trained consisted of managers, credit officers, accountants and marketing officers.

To promote marketing business of agricultural cooperatives, CPD, in cooperation with NACTI, conducts the training for the marketing officers of agricultural cooperatives under the Restructuring Programme for Agricultural Cooperatives in Poor Financial Condition. Its objectives are as follows :

1. To enable trainees to obtain the ideas and knowledge of the principles and appropriate methods in undertaking marketing business of agricultural cooperatives efficiently.

2. To enable trainees to identify their duties and responsibilities as marketing officers and apply the ideas, knowledge and experiences gained from the training to their work appropriately.

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\*Restructuring Programme for Agricultural Cooperatives in Poor Financial Condition is the CPD's programme of which the main objectives are to increase the working efficiency of the management staff and to solve the internal problems of the agricultural cooperatives. The cooperatives under the programme have also got government subsidy for hiring the main management staff.

3. To enable trainees to understand the paddy collecting procedure, to improve their working efficiency in supporting the government policy.

4. To enable trainees to coordinate and mutually work and solve the problems with other business personnel as well as being able to work in group system.

The result of marketing officer training in 1981-83 is given in Table 4.

**Table 4.** Number of marketing officers trained in 1981-83

Fiscal Year October-September	No. of trained marketing officers	Remark
1981	21	Each agricultural cooperative proposed one marketing officer.
1982	72	
1983	75	
Total	168	

*Source :* National Agricultural Cooperative Training Institute (NACTI)

### **Problems**

As mentioned previously, the government promoted marketing system of the agricultural cooperative movement by launching the Production Credit and Marketing Linkage Programme for Rice. The objective is to strengthen the agricultural cooperative movement and to achieve better income for the member farmers as a whole. The programme has been implemented since 1981. It can be said that, at present, the agricultural cooperative movement of the country undertakes paddy marketing through this programme. Therefore, the problems of cooperative paddy marketing are mostly related to the programme. The major problems can be summarized as follows :

### **1. The cooperation of cooperative member.**

The member farmers usually cooperate to sell paddy to the agricultural cooperatives when the market price is lower than the guaranteed price at which the cooperative purchases. If the market price is equal to or slightly higher than the purchased price, some member farmers will sell their produces to private traders. They do not realize yet the other advantages they may get from their cooperatives, especially the fair measurement system, and the long-run advantages. The cooperatives, therefore, collect less paddy than the target.

### **2. The rice price of cooperatives.**

Comparing the rice price of cooperatives to the private traders', the cooperative price is usually higher. The main reason is that the production cost of cooperatives is higher than that of the private traders, that is the agricultural cooperatives have to purchase paddy from member-farmers at the government guaranteed price, which is usually higher than the market price. The cooperatives are unable to compete in selling rice with the private traders and have to sell to the government corporate body such as Public Warehouse Organization (PWO). Selling rice to PWO which is the government enterprise in the past three years has to some extent affected the independence of the marketing system of agricultural cooperatives, as the cooperative marketing could not be able to vary with the price mechanism.

### **3. The marketing system of rice.**

As mentioned earlier, the agricultural cooperative movement sells most of the rice to PWO which often causes the problem of surplus supply, especially when PWO is not ready to receive rice according to the delivery contract. Delivering rice of the cooperative movement is delayed or stopped because agricultural cooperatives are unable to seek other rice markets. The agricultural cooperatives, therefore, have inadequate warehouse to collect all rice. This has become the burden for cooperatives to pay the loan interest. In practice, the agricultural cooperatives promptly debit

the account and/or pay some cash to member farmers when they receive paddy for loan repayment or sale from member farmers. Anyhow, BAAC will not debit the account of cooperatives unless ACFT has already delivered the rice to PWO.

#### **4. Quality of rice.**

Another important problem in delivering rice of the agricultural cooperatives under the programme is the quality of rice. Some quantity of rice delivered to ACFT was of lower quality than the set standard. PWO, therefore, refused to accept the rice that ACFT delivered, and the paddy had to be brought back to be regraded at ACFT. It wastes time and expenditure in delivering rice of the cooperative movement as a whole.

#### **5. Equipment and qualified personnel.**

Lack of facilities for collecting and processing paddy in some primary and provincial agricultural cooperatives, for example, warehouses, rice mills etc., has resulted in problems in collecting produce, especially when the cooperative system faces the problem of produce delivery.

At present, ACFT has only facilities for collecting and marketing other produce. Consequently, ACFT is unable to expand its marketing business for other produce. Furthermore, it also lacks qualified personnel to undertake both local and foreign marketing business of other produce.

#### **Suggestion and Prospect**

It can be said that the government has promoted the agricultural cooperative movement to support its policy in collecting paddy, for the better living of member farmers. However, compared to other institutes, the cooperatives are at a disadvantage. The other institutes, especially government enterprises which also undertake rice marketing, such as the Marketing Organization for Farmers (MOF) and PWO, if they suffer loss by undertaking the business, will receive a subsidy from the government. But the cooperatives

will not get such assistance if they face the same problem. Therefore if it is possible, the government should consider helping the agricultural cooperatives as the government assigns them to collect paddy from cooperative members at the guaranteed price, which is higher than the market price. The purpose is to prevent the agricultural cooperatives from being affected by government policy. Government assistance should be as follows :

(1) Reducing the custom fee of the rice marketing business and rice premium for the cooperative movement.

(2) Giving ACFT the special rice quota for the market share of rice, as the other government enterprises.

The above mentioned assistance should be a good method to reduce the production cost of agricultural cooperatives. The cooperatives, therefore, can compete with the private traders. It is unnecessary for the government to seek the rice market for the cooperative movement. Furthermore, delivery of rice to the market will also be quicker.

If there is an efficient marketing system for the cooperative movement, as mentioned above, the cooperative members will receive from the service of the cooperatives and consequently take a more active part in cooperative activities. This is the most important factor contributing to the success of the cooperative movement as a whole.

To tackle the problem of substandard rice, CPD and ACFT have sent officers to advise the primary and provincial cooperatives, and quality control measures such as moisture testing and introduction of grading machine are proposed.

Apart from solving problems and helping cooperatives in exporting, the government through CPD has changed the marketing Linkage Programme for Rice since the year 1983/84. The programme will concentrate on selling rice within the cooperative movement itself. From the marketing data, the volume of rice exported is less than that of local consumption. The agricultural



cooperatives this year's programme, therefore, have been actually promoted to seek the local market for rice.

Efforts should be directed towards overcoming the present weak position of agricultural cooperatives in the product markets. The concept of promoting agricultural cooperative marketing should take into account the following aspects :

- (i) The marketing of which **commodities** should be promoted (agricultural inputs such as fertilizer, insecticide, farm machinery, etc.; agricultural products such as rice, rubber maize, corn, livestock, etc.)?
- (ii) Which **marketing functions** should be strengthened (storage, transport, grading and backing, processing, marketing management etc.) ?
- (iii) Which **institutions** and **marketing structures** should be developed (structure of cooperative integration; marketing channels; cooperation with non-cooperative agencies; economic links with cooperatives in other countries; etc.).

It is believed that, if the above suggested methods are applied and concerned government officials cooperate and make effort in advising member farmers and all related people to realize the virtue of the programme and cooperative with the cooperative movement will be able to achieve the targets. When the marketing of a main crop like paddy succeeds, the marketing system of other produce, not being entirely dependent on external assistance, should also have the chance to operate successfully.



## **PART II**



# Internal Organization of A Cooperative Marketing Society

Dr. G. S. KAMAT\*

## Nature of Organization

**F**REQUENTLY, organizations are categorized as either production-oriented or marketing-oriented. In a marketing-oriented organization, the top authority, as distinguished from a production-oriented organization, gives dominance to consumer considerations, product and service lines are broad, organizational arrangement is decentralized, objectives are influenced by external forces the research activity is oriented towards marketing operations, financial policy is dominated by the market price rather than costs, improvements in products and services are influenced by suggestions that stem from customer needs and there are various other related business elements and functions that are determined with an eye on the corporate image from the customers' angles.

The word "organization" is variously used in management literature. Yet, in common parlance it refers to human relationships in a group activity. The activities of two or more persons are consciously coordinated towards the accomplishment of the given objectives, through a formal organization. Organization is, in a sense, a system which is composed of many sub-systems that are inter-related and integrated. The internal organization and the management of the marketing enterprise have synergic relationship so that it leads to results that are greater than the sum total of its parts.

The principal elements that are found in an organization are as under :-

- (i) Activities required to achieve the purposes of the organization are divided in an orderly and stable manner.

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- (ii) Duties and responsibilities are assigned to functionaries who have commensurate authority to carry them out.
- (iii) The personnel appointed to various positions are qualified, trained and contribute their full working time for which they are compensated on the basis of status and possibly the length of service.
- (iv) There is an official hierarchy in which personnel performing lower jobs are supervised by those in the higher ranks.
- (v) The management of the organization is based on formal rules and prescribed procedures.

### **Framework**

Creating an optimal structure that intertwines together various managerial functions is the first task with which a marketing cooperative has to concern itself for effective realization of its objectives. A marketing cooperative must have a philosophy of its own with the necessary characteristics that help in smooth flow of activities without obstruction or short-falls. The internal organization is, thus, the machine of management that works for achieving its objectives. The activities are grouped in such a way that they provide a framework of duties and responsibilities. The organization chart clearly depicts the structure of authority and job descriptions. The manual usually prepared for the organisational functioning provides detailed statement of activities and sub-activities that constitute the tasks of each functionary. Organizational structure is an indispensable means and a wrong structure may seriously impair business performance. The modern organizational concept interlinks activities relating to communication, decision-making and balanced development.

### **Size**

The size and structure of the internal organization of marketing cooperatives are determined by the level at which it is operating, the various services that are expected by the members as also the customers to whom it sells its products. Thus, a primary

cooperative marketing society functioning in the agricultural sector is expected to provide a complete package of services, covering selling on commission basis, supply of agricultural inputs, provision of essential goods to members, transport, grading, storage, processing of the products to the extent possible and such other services as agricultural extension, farm guidance, market intelligence etc. The federation of primary marketing cooperatives set up at a higher level would be performing similar functions on a larger scale for a wider area and with greater intensity, sophistication and efficiency on the basis of larger resources of men, money, material and machines that should be normally available to it. Thus, the size and the level would go a long way in determining the size and number of departments, divisions, sub-divisions etc. The need to build up specialization is determined by the size and sophistication required of each operation and the feasibility of making the department viable from the point of view of cost and returns.

### **Structure**

Generally, the internal organizational structure of a large-size cooperative marketing society appears as shown in the chart on Page 169.

A look at the organizational chart reveals a hierarchy of managerial functions. The scope and nature of activities determine the scalar chain whereunder personnel are assigned tasks, are activized and their activities are reviewed and, if necessary, modified at intervals.

### **Hierarchy**

There is at the top a general body of shareholders (in the case of a primary marketing society the individual cultivators are the members, while in case of a cooperative marketing federation, the shareholders will be lower-level cooperative marketing societies). The shareholders provide the risk capital (ownership capital) and through their annual general meeting they appraise the past year's performance of the cooperative marketing society, provide

policy direction in a broad way to the elected board of directors and through it to the executive management of the cooperative organization.

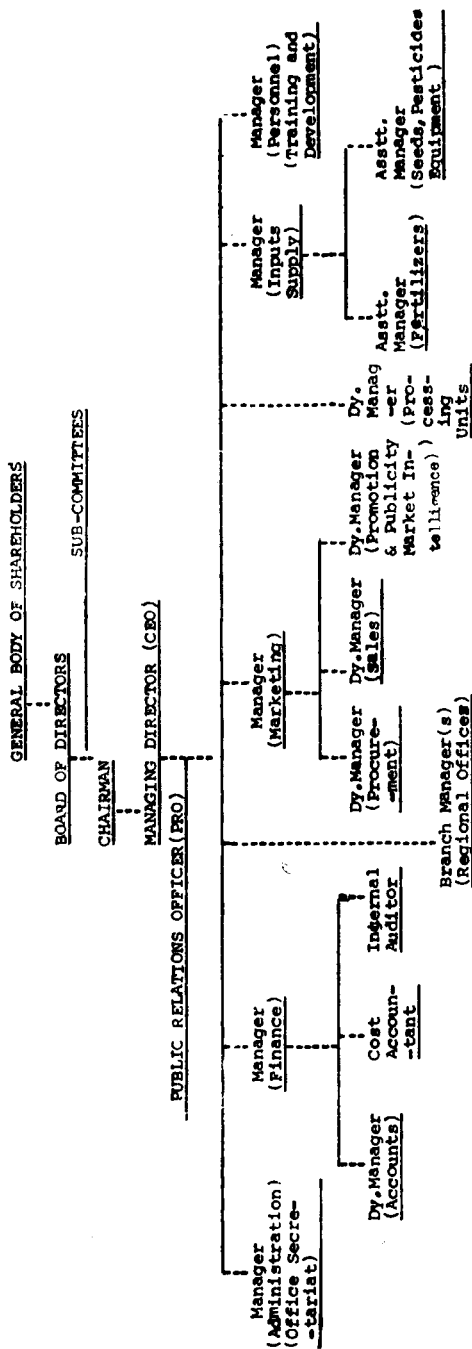
Next in the hierarchy is the elected board of directors and their sub-committees charged with the responsibility of formulating detailed policies, taking their more frequent review and monitoring the performance of the executive management towards achievement of the objectives set already before by marketing organization concerned.

### **Departmentation**

Below these, in hierarchy, is the managing director (or the chief executive officer, by whatever name called) who administers the day-to-day affairs of the cooperative marketing organization. The organizational structure is further divided into staff and line functionaries. The personnel performing staff functions are experts in their own area and they do planning, provide guidance, consultancy to the line personnel whose job is to execute the orders as directed by the senior executive. Thus, there may be six main departments in an organization—(1) Administration, (2) Finance, (3) Personnel, (4) Marketing, (5) Input supply and (6) Processing. These constitute the staff, while those functioning within each of these departments at lower levels are the line functionaries. The departmental heads support the managing director by their specialised knowledge and ability in planning, providing policy direction, as far as possible, in an integrated and balance manner. Each departmental head also helps the line functionaries in planning, coordinating, supervising, monitoring and modifying, if necessary, activities to achieve desired objectives. The line functionaries, thus, conduct operations in office administration or accounts and costs various marketing operations and input supply activities. tasks relating to management of the processing/production units etc. There may be branches or depots in the field providing a complete package of services to the area assigned. It is



INTERNAL ORGANISATION OF AN AGRICULTURAL COOPERATIVE MARKETING SOCIETY



**Note :** (1) The designation are indicative and may differ from organization to organization. Importance of functions is recognized.

(2) Depending upon the level (national, regional or local) resources and, need the functions may be grouped conveniently into more or less departments/sections.

also in line with the managing director. The necessary staff for recording transactions, maintaining accounts, handling of cash, effecting sales at the counter, managing transport and storage of goods in business, is provided to work under each branch/depot manager as per his requirements.

The decision about departments is taken, keeping in view the convenient grouping of allied services in relation to a specific activity or operation. The convenience of the organization and economy, commensurate with efficiency and effectiveness, are some other criteria for determining the number, the size and the subject matter activities to be covered by each department. Thus for example, the manager (administration) looks after office administration (general) and secretarial work of the cooperative organization. Legal services, administration of the property and such other general functions are also performed by this department. The other departments indicated in the chart, referred to earlier, are organized also, more or less, on a functional basis. Each functional manager carries out his duties and responsibilities through the line operators, though, if feasible, further specialists could also be provided as staff officers if the resources of the organization so permit. Thus, there may be a need felt by a federation of primary marketing cooperative societies to appoint a deputy manager (marketing research) to work under the marketing manager who could be in charge of surveys, economic analysis, forecasting, sales analysis etc. The functional managers shown in the chart are just indicative and depending upon their specialization in sub-functional areas, separate departments may be created permissible within the overall resource position. The decision depends entirely on the cooperative marketing organization concerned its needs, resources, etc. The span of control, which is an important principle of organization, is always kept in view in assigning group of activities. The narrow span of control increases the number of hierarchical levels and consequently the number of administrators. The decision on this account has to be taken with reference to the situation faced by a cooperative marketing organization, the level at which it is working, number and scale of operations etc.

The rationale for separating line and staff functions is that the marketing line functions (operations) and marketing staff functions (planning/services) are by their very nature distinct. It is difficult for persons to give equal time to "doing" and "planning" and to be equally good at both. The line functionary managers conduct daily operations and hardly get time for long-range thinking and planning. The function-oriented marketing organization is based on the principle that the skills required to handle different marketing functions effectively are more in variance with one another. Particularly when the cooperative marketing societies' products, services, territories and customers are similar, a strong case is made for the function oriented organizational framework. In other cases, where a variety of products are required to be marketed, the organizational framework is product-oriented. Advertising, marketing research are conducted at the corporate level to enjoy economies through minimizing duplication of personnel, space, equipment etc. Further, highly competent staff can be appointed which can secure necessary coordination in separate product programmes as well.

### **Region-oriented organization**

In some cases, there may be need to build up a region-oriented marketing organization (especially, in case of federal cooperative marketing societies) to take care of specific regional requirements. Where products and customer types are relatively homogeneous, but the regions are at variance, then regional specialization is considered desirable. The organizational framework is adapted suitably to take care of specific needs on this account,

Some marketing organizations have customer orientation to their framework. The buying practices or specific product interests provide basis for structuring marketing organization to take care of specific customer groups where they could be conceived on viable basis. This type of marketing organization is not possible in all circumstances though conceptually it can best explain the spirit of marketing. It might prove to be very costly also.

Thus, a cooperative marketing organization can design its framework around functions, products, regions or customers. In practice, however, pure forms of marketing organizations are generally not seen. Each one attempts to evolve the organizational structure by taking support of some rational factors. The historical influences and factors typical or peculiar for the organizational performance also contribute in no small measure to build up a desirable organization.

The business goals also influence the organizational framework as it is through the structure that purpose-oriented actions and activities are carried out. The organizational goals can be profitability, customer satisfaction, market share etc. The cooperative marketing organization must endeavour to achieve all these purposes as far as possible. In addition, personal goals of the employees in the organization should be ascertained and secured and every endeavour made to keep them in tune with the organizational goals.

### **Benefits of specialization and Cooperation**

On an overall basis, an organization is a group of people, working together for a common set of goals. The framework defines their roles and relationships to the tasks and to one another. The major principles that are sought to be implemented in a model organization (including that of a cooperative society) are specialization, coordination and authority. In a modern organization, out of sheer necessity of performing narrow tasks, the functionaries have to develop specialization that contributes substantially to improving productivity. The need for division of labour leads to identification of specific functional areas in relation to which specialization occurs.

However, the benefits of specialization produce certain side-effects which concurrently bring to the fore a need for coordination. The smaller or narrower tasks have to be integrated to secure a total performance through communication, committees and coordinators. To ensure coordination of the desired type,

**an organization develops a structure of authority. It has to be commensurate with responsibility cast on a functionary.**

**The human factor in organization, it will be recognized, is equally important as ultimately human relations go a long way in determining quality of performance and extent of attainment objective. The formal and human aspects of organization have to be properly integrated so that inter-departmental policies and practices intended to secure overall cooperative business objectives/interests are developed on right lines.**

### **Situation in developing countries**

**Agricultural cooperative marketing organizations, from the developing countries particularly have yet to absorb and adopt the above mentioned basic ingredients of an organizational framework. This situation is basically responsible for their various weaknesses and under-development in crucial areas of organization, operations, planning, profitability etc. Constantly changing managers, over emphasis on reserved business areas, subsidies, concessions, grants from the State etc. have contributed to build up a sense of complacency in the managements of cooperative marketing organizations. The emergence of professionalized management is forestalled under such conditions and this comes in the way of building up a naturally growing and developing organizational framework in response to the challenges posed before cooperatives of the small farmers in respect of marketing their products through cooperative action in a competitive market.**

**A cooperative marketing organization must be structured appropriately and maintained effective enough on a continued basis in a dynamic marketing situation so that it can respond optimally to the challenge of marketing opportunities. This alone will enable the cooperative organization to achieve the basic objective of protecting and promoting the interests of the member farmers at the grassroot level.**

# Integration of Marketing Activities of Primaries and Their Federations

S. K. IYER\*

“**COOPERATION** among cooperatives” is one of the cardinal principles of cooperation. It is this concept which has given vent to the evolution of federal structure as an organized cooperative socio-economic enterprise. Eminent cooperators and specific committees for this purpose have deliberated on the need of a federal structure and have favoured it. Cooperatives in India function on a democratic basis largely. Thus, consideration was also given to the desirability of the number of tiers in a federal system. The All India Rural Credit Survey Committee (1954) recommended a federal structure for cooperative marketing spreading from mandi (secondary market) level to state level. The Committee on Credit Cooperatives in Non-agricultural Sector (1964) emphasized that the cooperative movement should be federal in character and the constituent units of the federal organizational structure should consist of primary units at local level, secondary units at district level and territory organizations at the state level and finally the national level cooperative organizations.

The Santhanam Committee on Cooperation in Tamil Nadu observed, “It is not possible for millions of persons to participate actively in a single centralised primary society. Therefore, every society has to have a limited jurisdiction, though this may vary to a considerable extent according to the nature of activities of the society. These primary organizations will have to come together for common purposes and so a federal structure becomes inevitable. How many tiers should be in respect of any particular activity is a matter of expediency.”

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**Adoption of federalism by cooperatives developed from the philosophy of the movement viz., collective strength through mutuality, unity and structural oneness and solidarity which are essential for integrated working to give it an operational system. Isolated functioning of each unit cannot generate adequate resources to achieve the objectives. Just as individuals build power and vigour by uniting themselves voluntarily into a cooperative with mutual understanding for common purpose and functioning democratically, so do the individual cooperative enterprises. The federal structure unites them at different and same levels. The inseparability and mutual link from lower to higher organizations is a distinctive feature of the movement.**

In fact, the expediency of situation necessitates a sound federal structure. In a country like India the traditional private sector, working through its own trust, cartels and business combination had been rather entrenched with power and strength and on the other hand the public sector does not have the socio-economic objectives and principles of the movement. Hence, cooperative organizations, functioning in isolation, cannot survive in competition with them. Added to this, as State patronage by way of 'protection to cooperation' cannot be considered as a permanent feature, internal strength has to be built up through structural integration and solidarity.

## **EXISTING STRUCTURE AND THEIR ROLE**

### **(i) PRIMARY MARKETING SOCIETIES :**

There are 3592 primary marketing societies which are the basic link with the farmers in the cooperative marketing structure in India. These societies are organised at the mandi (wholesale assembling or secondary markets) level and their membership comprise primary agricultural credit societies as also village service societies and individual farmers. These societies have a wide range of functions and activities to perform. Most of the marketing societies in India have had to confine their activities to limited marketing of agricultural produce and have had to concentrate on

distribution of agricultural inputs, largely fertilizers. These societies arrange to sell agricultural produce brought by their members, ensure distribution of fertilizers, and essential consumer articles in the *mandi* towns and in rural areas through their member-societies and also provide loans on pledge of produce pending its sale. Very few societies undertake grading, pooling, processing of produce and their sale in the terminal markets which are considered to be their important functions.

## (ii) DISTRICT/REGIONAL MARKETING SOCIETIES

The district/regional marketing societies exist only in a few states. There are 380 district and regional marketing societies, including 208 sugarcane supply marketing societies and cane units, in India.

It was envisaged that these societies would coordinate the functioning of primary marketing societies both in regard to marketing of agricultural produce and distribution of agricultural requisites and consumer items and also undertake processing, (where necessary), inter-district trade etc. In practice, they are mostly involved in the distribution of agricultural production requisites and essential consumer articles in the rural areas. The extent of marketing operation undertaken by them has not come up to high levels since in many areas these societies are not located in *mandi* (market) centres or wholesale markets. Naturally there is very little scope for such district societies to undertake marketing of agricultural produce on a large scale. Even where the district headquarters is a wholesale market centre, primary marketing societies undertake the actual marketing. As such, the district societies largely play a promotional role. However, these societies, wherever they exist, play an important role in the procurement and distribution of agricultural inputs and supply of consumer articles to the farmers as these functions require close coordination with the district officers of the various departments of the state. Sometimes the district societies functions overlap with those of the primary society and they become by and large redundant. The retention of district marketing societies has been a matter of



debate in India and the Dantwala Committee on Cooperative Marketing (1966) observed that under the existing marketing structure a district federation has very little role to play in actual marketing of agricultural produce. The involvement of the district federation only results in extra handling costs and avoidable physical movement of stock. On distribution and supply functions, the Committee felt the need for having an organization at the district level which would be a resource generating socio-economic cooperative. First, close coordination with the various government department officials at the district level is required as the district officers and other bodies have preferred to deal with a single agency for purposes of coordination, accounting etc rather than a number of primary societies. The Committee, therefore, felt that there is no need for an independent organisation at the district level for this purpose and the branch of the apex federation at the district or regional level as the case may be could serve the same purpose. Accordingly, it recommended that the future pattern of organization of marketing cooperatives should be a two-tier structure with the apex federation at the state level, and primary societies at wholesale market *mandi* level. At the district or regional level, branches of the apex federation may serve the purpose. However, the Committee recommended that the existing district level societies need not be disturbed but they should gradually divest themselves of such functions as legitimately fall within the purview of the marketing societies in favour of the latter.

### (iii) STATE APEX MARKETING FEDERATIONS

The state cooperative marketing federations at the state level have played a crucial role in the development of cooperative marketing of agricultural produce. There are 29 state cooperative marketing federations in the country. These federations have been organised to undertake marketing operations on behalf of their affiliated societies particularly in the field of inter-state and sometimes in export trade of agricultural produce. They procure agricultural inputs and other essential consumer goods required by

the farmers. Where large-scale processing is required, the apex federation may undertake such processing. It may also set up manufacturing units for fertilizer mixtures, agricultural implements etc. for supply to the farmers. Another important function of the apex federation is the dissemination of marketing intelligence and rendering expert advice on marketing and processing of agricultural produce. It is also required to perform certain developmental functions such as assisting its affiliated societies in the construction of godowns, setting up of processing units etc. It should also maintain a close liaison with concerned government departments for marketing of agricultural produce, supply of agricultural inputs, consumer supplies etc. All these functions necessarily involve coordination, guidance and at times supervision with their affiliated societies.

#### (iv) NATIONAL FEDERATION

At the national level, the National Agricultural Cooperative Marketing Federation of India Ltd. is the apex of apex state federations. Its functions are intra-state, inter-state and export/import trade of agricultural commodities, and coordination of the activities of the state federations and rendering them expert advice, market intelligence, product information, technical guidance on problems relating to cooperative marketing, processing, internal trade, inter-state trade etc. Its functions also include import of agricultural machinery and other inputs needed by the farmers. It has to set up large-scale processing or manufacturing unit spread over in the states for the processing and sale of agricultural produce, to help stabilize the rates for farmers. The national federation has four regional offices, 31 branches covering important terminal markets and port towns in different states to facilitate inter-state trade and export and also to maintain close liaison with the state marketing federation and societies in these activities in addition to concerned State functionaries and their agencies. The Nafed has also set up processing units of agricultural produce and is the pioneer in developing storage capacity for onion etc.

## v) INTER-RELATIONSHIP WITHIN THE MARKETING STRUCTURE

The functional cordiality among the primary societies and their apex federations has not been very encouraging, which is true of many other countries too. For quite a long time, and even today, the structure has not uniformly developed throughout the country in order to facilitate well knit marketing functions. Only one-third of the primary marketing societies have an annual turnover of Rs. 500,000 and about one-third do not undertake any marketing of agricultural produce. The remaining societies are fully engrossed with the distribution of agricultural inputs and consumer goods to farmers.

Not only the primaries but a few state federations are not engaged in the marketing of agricultural produce, owing to their other immediate services to their members in supply functions.

Quite a few state federations are undertaking marketing activities on a sizeable scale. For example, four state federations, viz. Maharashtra, Punjab, Haryana, and Kerala account for 82 per cent of the agricultural produce marketed and the remaining federations account for only 18 per cent. Other state federations are forging ahead rapidly like those of Gujarat and Uttar Pradesh, who undertake outright purchase on a large scale. These federations are also largely engaged in the distribution of agricultural inputs, mainly fertilizers and consumer articles to the farmers.

Even in the states where the state federations have a good performance record the position is not very encouraging insofar as coordinated marketing activities are concerned. Some state federations prefer to procure commodities required by them directly from the farmers or through commission agents etc. This is partly due to lack of satisfactory arrangement between the apex federations and the society and partly due to the inability of the primary societies to cope with the quantitative and time bound requirements of their federations, coupled with inadequate skilled man power.

The apex federations are mainly engaged in their own business operations and are not able to provide promotional guidance and support to the primaries in developing their marketing activities. This may be so because of the lack of interest on the part of primaries, even though their representatives form the management of the apex federations. Perhaps this situation is due to differences in priorities. Another constraint is that the state federations do not find it feasible to prepare their annual marketing plans in consultation with their affiliated societies. Even in case of distribution of inputs like fertilizers also some state federations prefer to keep better terms and commissions for themselves. A few others try to avoid involving their primaries in the distribution of the important inputs like fertilisers. Such phenomena do exist elsewhere too, where elected cooperatives or government nominated cooperatives function.

### **NAFED and its constituents**

With the expansion of business activities of NAFED including price support operations and selective canalization of exports and imports in sensitive items, it has been able to involve actively its constituents in business operations on an increasing scale. While the primaries are the agencies actively engaged in the procurement operations of Nafed, the state federations, through their branches and primaries, act as Nafed's procuring agency in close association with Nafed's offices. It has been the endeavour of Nafed to involve more and more of its constituents in procurement operations. During 1978-79, Nafed's joint venture business increased significantly and state federations and primaries were actively associated in the procurement of cotton, groundnut, potato etc with the risks shared. Nafed utilises the state marketing federations and primary marketing societies for its purchase operations and both have to be paid service charges, even though actual handling is done very often only by one of them. The actual procurement is done in some states by the primary marketing societies and in others by the state federations through their branches or sub-offices. In both the cases actual handling is done by one agency

and the other agency gets commission, thereby avoiding double handling etc. This sometimes gives an impression to the procuring agency which has actually employed its men and money, that all the service charges should be paid to them alone.

There have been instances where the state federations refused to work on commission basis which is a normal mode of trade and insisted that Nafed should make outright purchases from them. The state federations advance the plea that the nominal service charges of  $\frac{1}{2}$  to 1 per cent is uneconomic and does not meet the cost of these operations. The state federations also having their own large commitments are not in a position to work for Nafed. On the other hand, they do not allow primaries also to work for Nafed. This was so about six years ago and since then understanding has increased. It has been observed that strong state federations feel interested in the work of Nafed and are expected to coordinate the inter-state marketing but the state federations do not always approach Nafed. They also do not consult Nafed and their affiliates while preparing their annual marketing plans. Besides some state federations prefer to procure agricultural commodities through their own branches which does not appear to be a healthy approach, though it may be very sound for them with their knowledge of their member institutions.

The state federations have expressed their desire that Nafed should procure commodities of canalised exports from all the producing states so that the benefits of exports may be passed on to the farmers in these states. Nafed also favours this approach but due to quality constraints of the produce in different states it is not always possible to do so.

#### **(vii) Broadbasing the Nafed's Membership**

As stated earlier, owing to state federations not undertaking operations on an appreciable scale, the primary societies have not been able to increase their business on a coordinated basis with their state federations. In order to provide business support to primaries, Nafed, at the instance of Government of India, broad-

based its membership in 1976-77 to enroll primary marketing societies having a turnover of Rs. 2 million (Rs 1 million in the case of a cooperatively underdeveloped state in handling of agricultural produce) to become members of the Nafed. As a result, 133 primary marketing or processing societies have so far taken the membership of Nafed. This has helped such societies to participate in the increasing business avenues created by Nafed throughout the country.

In the recent past Nafed has undertaken joint ventures with apex federations and in some cases tripartite joint ventures involving state federations and primary societies also. In this the business investment, risk and profit or loss and also the functional requirements are shared on an agreed basis with the participating affiliates. The joint ventures have helped the primaries to gain much needed expertise and experience with the help of the higher level federations by reducing the element of risk on the one hand and benefiting by the experience and expertise of their higher level federations on the others. Such joint ventures have been satisfactorily undertaken in respect of cotton in Rajasthan, Punjab and Haryana; oilseeds and oil business in Gujarat; fresh raw ginger in Manipur, Mizoram and Meghalaya and potato in Punjab, Haryana and UttarPradesh. In respect of export also such ventures have been tried.

Nafed has also involved many state federations and primary societies in the procurement under the price support operations of soyabean, voluntary price support-cum-commercial operations of onion in Maharashtra and Gujarat, potato procurement in Punjab and U.P., apples in Jammu and Kashmir and Himachal Pradesh, eggs in Punjab, Haryana and Andhra Pradesh.

### **Suggestions**

The success of integrated cooperative marketing largely depends on mutual confidence and avoidance of individual short term gains. The lead is required to be given by the national and

state level federations. It is imperative for the federations to set ideals and examples with their own conduct and system of working to be followed by constituents. But it is equally necessary for primaries to extend full cooperation to their higher level organisations. Some areas where immediate attention in a concerted manner is required can be identified on the following facets on the marketing front:

(a) The primary marketing societies should avail themselves of the facilities available from the national cooperative development corporation's scheme for strengthening of societies. So far this facility has not been availed of by many societies. In states where assistance has been provided, there is need for close watch by the State Government or state federations over the progress. It is worthwhile to consider the state federations supplementing the efforts of NCDC by adopting five primary marketing societies every year on a priority basis and assisting them to expand and develop their activities. The emphasis should be on fruitful functional integration in preference to granting of certain nominal concessions. The adopted societies should become economically viable.

(b.) The state federation should not be encouraged to undertake any procurement operations directly without involving primaries which curtails their business. The state federations having district or branch offices should involve the primaries in their procurement operations without undue enhancement of operational costs. The primary marketing societies should be encouraged to undertake procurement operations in joint venture. This would create confidence in them to help the farmers with the experience and expertise gained, by undertaking price stabilising functions though on a limited basis within their resources and budget.

(c) The State federations should treat the primary marketing societies as their procurement agents in respect of all commodities procured by them as agents of Government of India as also in respect of commercial operations undertaken by them and allow the societies adequate margins, storage charges etc.

(d) State federations should try to procure goods required for the national federation on commission basis, which is a normal mode of trade, and avoid insisting on outright purchases. In this case, Nafed should try to arrive at a reasonable rate of commission to be allowed to the state federations related to the investment and risk involved. Wherever a state federation is not willing to operate for Nafed it need not object to operations through the primaries which are willing to work for Nafed. Remuneration must be commensurate with services.

(e) Higher level federations should disseminate market information to their members for their use in business. The federal organisations should assist the constituents in the implementation of their plan by way of providing guidance, arranging technical know-how, finding interstate marketing avenues and pursuing the Government in securing business opportunities for the cooperatives.

(f) The national / state federations should try to secure export and import orders in accordance with the export-import policy of Government of India.



# Technical Services by Marketing Federations to their Affiliates

S.S. SHERGILL\*

Cooperatives basically have come up in the social structure of this country to the effect that a combined effort is always required to achieve a desired goal. The cooperative movement was started to uplift the economy of the rural masses by creating environments to the developing standard of living and increasing economies of the world. Since every one has to be provided with all the necessary infrastructure of life at a proper price, efforts through cooperatives are always made to create awareness of collectiveness in the rural and urban folks for attaining the fulfilment of their objectives. When resources with the individuals are low in degree and there exists a scope to effectively take care of a project by joining hands, cooperative is the only formula which can be successfully applied. To achieve their goals cooperatives have to keep abreast with day-to-day resources, effective management and speculation of the competitive market. Most of the cooperatives are organized in a big way in the rural sector especially by the farmers who do not have the resources to develop their economy and living standards with their individual efforts. However, by organising cooperative societies they are able to unite the individual efforts to form a big force which can extract maximum advantage from the Government as well as from the individuals who are able to support the movement.

The societies at the village and 'taluka' level are again a very small proposition and do not have a very viable base for attaining their objectives. However, the marketing federations which look after various requirements of member-societies scattered all over the State or country has a proper base and viability to recognise,

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plan, execute and control the various activities regarding agricultural produce, its effective marketing and financial gains to the society. The marketing federation is an apex institution of the State level for looking after the various functions referred to above. While going through the business propositions set up by the federation for its member-societies, there are many kinds of services which have to be provided to the societies at times for fulfilling the objectives of the federation and the societies. If we look into the micro structure of the rural cooperative societies, it may be observed that rural folks join together and prepare the by-laws of the society which is ultimately registered under the Cooperative Act with the Registrar of the Cooperative Societies of the State. The financial structure of the society at this level is not very strong since the society comprises rural farmers who have financial constraints on them. At the same time, the level of education in them is not of the desired degree and they cannot look after the affairs of the society themselves. Hence there is primarily a need for an apex institution having many societies under it which can provide suitable guidelines, technical help etc. to the society for making it an economically viable proposition. If the Society is not capable of progressing with the passage of time looking to the technical development which is taking place all around it is important to plan our activities according to the need of the hour, and for doing so the society requires skilled persons highly qualified, having wide experience of the business for taking the strategic decisions required from time to time. For instance, the agriculture cooperative society may have a large surplus of agriculture produce which is not marketable at the marginal profit limits which have been set up in the market. The society may think of processing the perishable product, to convert it into a storable product and market the produce effectively so that the return to the members is higher than marketing the produce in the raw shape. This eventually has been thought of by the cooperatives keeping in mind that their farm production normally goes to the industry, apart from the direct consumption by masses which is converted into various marketable products. Under the circumstances, the con-

version of the farm product can take place right in the rural areas if a proper industry backed by renowned technology is set up to take care of this intermediary function of agroprocessing and marketing the same in an effective manner to the rural and urban areas. This helps in two ways: (i) the farm surplus is not allowed to go waste and is converted into usable products which can be stored over a span of period, and (ii) the agriculture production can keep on improving and marketability of the farm product is assured to the farmers. These two things go hand in hand and there are a lot of advantages, direct and indirect.

Looking to the above, it becomes difficult for a small cooperative society to keep up its efforts for setting up a processing unit or installing a modern system for storing the farm products effectively in its area of operations. This necessitates the help of the marketing federation. Help from the marketing federation and apex institutions which can provide various technical services required for setting up a processing unit in the rural areas is quite essential. Out of many technical services which are given by the federation to its member societies the following can be considered important.

## **1 Role of Consultant**

The project which can be either recognised by the society or to be recognised for the benefit of the society is to be evaluated technically as well as economically following the set procedures of preparing economic viability. This is an important aspect which has to be looked at the first instance by a team of technical experts for checking up the viability of the Project. It is only after the feasibility report is made, further work on the project can be planned and executed. The apex federation which has either employed or has on its panel competent consultant or various specialized fields can provide this service either free of cost or at a nominal expenditure which could be subsidized by the State Government or by the Central Government under defined programmes. This service is very critical for a society since it opens the new areas of operation and to improve the economic conditions

in the rural areas also industrializes the rural sector by transferring the latest technology to that area. A federation normally has experts employed who may not be available with the societies because of their high maintenance cost and their services can be loaned to member societies for the preparation of feasibility reports or pre-investment study reports. In certain cases, the reports can be prepared by proper consultants for typical projects and can be evaluated by the experts of the federation on behalf of the societies. This gives more confidence to the societies to effectively take care of the project in the long run.

## **2. Site Selection**

After having prepared the feasibility report and checked up the economic viability of the unit proposed, it is very important to select a proper site for the establishment of the unit. The site selection has various implications such as topography of the land, water table below the ground, load bearing capacity of the soil, low lying area, nearness to the source of power, nearness to the mandi, nearness to water sources, effective means of transport, provision for post and telegraph facilities, availability of skilled and semi-skilled labour, availability of raw material for construction of building, checking up of rules and regulations of the industrial set up in the State, availability of raw material for 15 to 20 years etc. It may be observed that the above aspects of site selection require a proper weighing of each factor as envisaged for the new project. If any one of the services referred to above changes in due course of time, the project can go to bad shape involving huge losses. The federation gives a good amount of technical help to the member societies in the selection of a good site to set up a processing project, storage complex or packing and grading facilities for the societies etc.

## **3. Designing of Buildings and Roads**

After the site has been selected and various other formalities have been completed, the project is ready to take practical shape

**Architectural and designing facilities are required by the societies for the construction of buildings, which again is a highly specialised job and cannot be organised by the society as such. Therefore, the federation looks into this aspect also, which is quite critical, looking to the efficient operation of the project in the long run. The buildings are to house main machinery and other auxiliary equipment and these require efficient designing and aesthetic look in line with the requirements of the project and can be provided by specialised experts in this line only. To coordinate various activities and to provide basic technical data to these experts itself is a big task, and the federation provides this help to the society for properly coordinating and executing civil construction.**

#### **4. Financial Assistance**

After the project has been checked for technical and economic viability, the finances have to be arranged by the society to get the scheme implemented, The loan institutions in the country require a lot of data and documents which shall have to be made according to set procedure of the loan institutions. This calls for a good deal of expertise and skill of the project executives. They cannot be employed by the societies. As such to get loans the federation provides help through financial controllers, project managers etc.

#### **5. Procurement and Installation of Machinery**

Very important aspect of the project which has started moving for its practical shape is to procure the plant and machinery and to instal the same in an efficient manner for getting desired results from the project. For doing this job effectively a technically qualified well experienced person is required to take care of this aspect so that proper machinery which has a low cost and is efficient for operation and is backed by suitable guarantees is purchased either from the local market or from abroad after seeing various possibilities of import rules of the country, Hence these services are to be supplied by the federation which can have these kinds of experts available for taking care of this very important aspect of the pro-

ject. After the procurement of the desired plant, equally important is its installation for which a lot of technical data is to be collected and coordinated with the manufacturers and suppliers of the plant. Many clearance from the local authorities like electricity and water and sewerage departments etc. have to be sought by giving proper justification. The design of the foundation and the selection of erection contractor are the various fields where the services of skilled technocrats are required and can be available from the federations.

## **6. Transportation**

Transportation of purchased equipment and raw materials for building construction etc. is also very important for effectively executing the project. Plans are required to be made whether to have a fleet of vehicles owned by the society or to give transportation contract on acceptable terms and conditions for the benefit of the project. If fleet of vehicles is to be acquired proper procedure for its technical acceptability is to be worked out. At the same time, facilities for repair and maintenance in a base workshop are required to be created to look into the maintenance problem of the fleet. All these matters require technical skill which can be available with the federation and easily passed on to the society for setting up of transportation facilities for the proposed project.

Another important factor to be looked into by the Society is to procure and get a sizable inventory of spare parts which would be required to maintain the fleet of the vehicles in an operational condition. Under normal circumstances, the selection of the technical hands who would be responsible for maintenance of the fleet does not pose a major problem but in the far-flung rural areas where the society is operating it may pose a great difficulty at times looking to the configuration of the society. The federation as such can provide technically skilled maintenance supervisory staff for some time to train the unskilled or semi-skilled mechanics available in the rural areas for better upkeep of the vehicles. The operation of the fleet on economic lines has to be kept in mind by

the society for ultimate profit generation for its members. Hence, the consumption of lubricant oil, diesel, petrol etc. along with repair cost has to be constantly checked against the mileage covered by the vehicles so that the units are operating at the optimum efficiency. For the purpose of monitoring the efficiency of the vehicles, certain norms can be fixed by the expert from the federation.

Apart from the above technical assistance, which can be given to society by the federation looking to the standing and the business orientation of the small society, even the federation can provide transportation facilities from its own fleet on a temporary basis at a nominal charge to avoid the overhead and fixed expenses burden of the fleet of vehicles on a society as a permanent liability. Since the federation can own a centrally located workshop where the fleet of vehicles can be maintained and operated for the use of various societies in the area, such a transportation service can help the society to turn out more business and to grow bigger in terms of work done. Later on, the society can think of having its own fleet provided the economic viability is better for the society.

## **7. Developing financial and policy management system**

A cooperative society is set up in the rural area at the village or taluka level and the members of the society are basically the farmers and are not experts in the financial and other management aspects of the running of the society. Whereas it is very important for a society to have an infrastructure of the requisite type which could provide the necessary guidance from time to time for the operation of the business as well as to keep harmony between the farmers and the society for efficient operation, the financial part of the business cannot be overlooked and has an important bearing on the economic operation of the society. Hence it may be stated that financial as well as management systems for a society have to be developed keeping in mind the modern trend of the trade, transportation disposal, collection of funds, payments to be made etc.

Every society is registered under the cooperative act and is governed by the rules and regulations stipulated in the act under the guidance of the Registrar of cooperative societies, from time to time at the State level. Therefore, close liaison is supposed to exist between the society and the office of the Registrar of Cooperative Societies through district, divisional and state level branches. The cooperative societies at the village level act as an important tool for the government to collect information at the grassroot and channelize it to the government for knowing the actual position of the various types of rural development programmes and production etc. in the agriculture sector, The state government floats a lot of schemes for the benefit of the rural masses in the agriculture sector and as such it is difficult for the government to implement the scheme successfully if taken independently, but with the help of cooperative societies the schemes like distribution of essential commodities, fertilizers, seeds, insecticides and pesticides, and money in the shape of loans to uplift the economy of the rural sector is effectively channelized for deriving the maximum benefit. Therefore, it may be seen that the society in the rural areas plays a vital role in the day-to-day economy of the state and as such a proper management system has to be developed by the society to cater to the various needs of the hour and to coordinate with various agencies in the state for the effective utilization of the facilities available from the government under various schemes.

## **8. Finance.**

Finance is very important for every person because every bodily desire of the human being is to be fulfilled by either selling or purchasing articles in the market. The purchasing and selling part is closely linked with the transaction of funds from one hand to the other. The day-to-day operation of the money for either selling or purchasing is called the financial aspect of the business. In the early days, when the technological advancement was not there, to have a financial management for a small business was not a difficult affair but the time has come now when the financial part



of the business plays a major role in the economy of a project. Therefore, if a society has to work for the benefit of its members, it should have a very sound system of financial control and proper accounts. It may be seen that there is a huge difference between the finance and the accounts which was never realized earlier by the businessman. In the modern world, 'finance' means making arrangement for raising funds and to have transaction in the most appropriate manner for one's maximum benefit whereas 'accounts' means having a proper book-keeping system for various transactions under classified heads. The society has to deal with many activities like procurement of agricultural produce from the farmers, disposal of the produce at an appropriate price, distribution of dividend to the member-farmers, distribution of salaries and bonus to the staff working for the society etc. Apart from the above, the society has to channelize the loans from the cooperative bank for the farmers, arrange various inputs at an appropriate price, arrange subsidy wherever available from the government, state or central for the members. It may be observed that at every stage of operation of various activities, finances are involved in a big way. Therefore, a proper, sound and foolproof financial system is required to be developed so that the society can work at the optimum efficiency, giving the desired benefit to the members. A federation at the apex level is able to help the society in the preparation of proper financial arrangement and its management by providing assistance from its financial wing. Experts from the federation can be deputed to the society for a couple of years in the initial stage to establish financial procedures and audit system to ensure that the finances generated or available from the government are put into operation following a well-tried system of financial management. The financial expert from the federation, while on duty with the society, would help it to recruit personnel from the rural areas and effectively train them for the purpose of creating potential to control the finances of the society. The federation can also arrange training of such personnel taken from various societies at a time to give them a theoretical background for the effective financial control to be followed in a practical way. Such

training can be undertaken on subsidized charges or free of cost for the society. This would create confidence in the persons who have to ultimately go in for their career as financial managers with the societies situated in the rural areas.

The banking transactions and loaning procedures are changing day by day keeping in view the level of operation for the business and as such the societies are supposed to know the latest rules and the amendments thereof in the financial matters. The federation can help the societies to inform them from time to time various changes and the likelihood of any change in the rate of interest, limit on loans and other rules which are envisaged well in advance by the business circles for the benefit of the societies. A proper check can be maintained in a routine manner by the federation on the financial outlays of the society for detecting any fault and providing corrective measure of the same, if observed. These types of voluntary controls would help the society staff to work in an efficient manner for the benefit of the members.

As stated above, accounts is another important aspect of the finance and unless a proper book-keeping system is used the society will not be able to check its operation for the level of profits during a year. To look into this very important factor, the federation in the initial stages can lend the services of an expert accounts officer to the society who would rather go into details under the guidance of the financial controller for maintaining various types of accounts books categorized under different heads. As the business picks up and the accounts matters become complicated, proper discretion shall have to be used by the accounts officer to account for the expenditure in a proper way under a proper head. If the finances are properly accounted under various heads it is not difficult to prepare a balance-sheet while calculating the income tax of the society, and showing dividends to the farmers. The accounts officer has a very big role to play in informing the financial controller and the manager of the society regarding the position of the funds at a time. This is possible only if proper book-keeping is done.

## 9. Management Policies and Systems

The cooperative society has to have a very sound management system for the performance of smooth operation of the policies and to achieve the objective of the society. For carrying out various activities like finance, accounts, general administration, storage etc. field staff at the mandi level, manager in the society office to deal with various problems of different sections—Transport Department, Purchase Department, Marketing Cell, Storage Cell etc. are to be recruited who are aware of the day-to-day changes of business parameters. When personnel of various categories are involved to make a coordinated effort for the fulfilment of the objective of the society the management system should be developed in such way as to facilitate the easy and smooth operation of various works pertaining to the society. The federation can help the society for developing such a system of management right from the general manager's level to field assistant and godown keeper. Under the Cooperative Act, the society's members are to be informed from time to time and meetings of the governing body of the society shall have to be summoned at the appropriate time to get clearances of various policy matters and business transactions. Therefore, proper agendas and arrangement of the meetings shall have to be made by the administrative branch of the society. The federation at the apex level can provide the services of a management consultant for developing a management chart for the society indicating the designation, scale of pay, responsibilities and place of a person in the hierarchy of the organization. Proper management as such plays an important role for the effectiveness of the policies of the society and fulfilment of its goals. Hence various categories of personnel should be manning the positions at various levels. The management consultant from the federation would see and ensure that qualified and experienced personnel are fixed up for achieving desired results and targets. He could also perform the duties of advising the recruitment body of the society at the time of filling up various posts to choose proper personnel. The management system has to be developed further for day-to-day

working of the society, type of correspondence to be kept up with various agencies and proper coordination maintained, the types of registers and other documents to be maintained have to be properly classified and duties of the officers fixed to maintain the works accordingly. All this is required to see that the society fulfils its objectives for the benefit of the members. The federation can help work out the financial and management policies and system to gear up the working of the country.

## **10. Trading Methods and Practices**

The economy of every business now a days is based on many factors, of which the most important can be categorised as :

- a) to choose the best method of trading.
- b) to choose a proper sensing method to have proper speculation in the trades.
- c) to keep a strict watch on various types of business connected directly or indirectly with the main trading.
- d) to keep a watch on the fluctuations of market trends in the national and international markets.

Looking to the above, the important factors to be taken care of for successful trading, a proper marketing and trading cell is required to be found by the cooperative society so as to take care of trading successfully. A number of societies in a state may not be in a position to have experts recruited for the purpose of guidance and as such their expert opinion at times is essential to regulate their trading practices. For such societies, the state level federation can always provide a system in which a marketing expert can be sent to work for the society on deputation—may be on the subsidized rates for his emoluments, to set right the trading methods and practices, make procedures and rules to be followed by the staff of the Society to carry out the day-to-day trading business for the benefit of the society. Such experts can work with the Society for a couple of years and after ensuring the system of trading adopted in the society is in a position to handle the

entire work, can return to the federation. As a matter of specialized service, the Federation can have computerized data for knowing marketing trends and fluctuations at the national and international level and analyse data thereafter to arrive at important decisions for guiding the trading activities in various commodities whether it be cotton, paddy, fruits, jute, milk or wheat. Private trade normally has the advantage of getting information in advance because of its systems and controls on trading and can make a lot of money by either storing the material or by buying at cheap rates and selling when the market is favourable. Compared to this, a cooperative society has to work very carefully after having a feel of the market so as to give maximum advantage to its members. It has to follow the systems prevailing in the market in the most favourable manner. Therefore, it may be seen that proper market surveys and daily reports analysing the market trends are very important before trading activity is undertaken.

The important decisions about the practices to be followed for trading is another very difficult task which the marketing experts of the society have to indicate. The normal practices of trading followed at the *mandi* level might have to be changed slightly or completely to see that the trading practices are beneficial to the societies. If the cooperative societies are doing a good deal of business in a *mandi*, they are certainly in a position to change the practices for the benefit of the masses. Under the question of trading practices, it may be observed that the material is produced by the members of the society in the farms. It is brought to the *mandi* and the society has to decide where to store it for the time being and pay to the members a percentage of the basic cost and look out for an opportunity for maximum benefit sale. The balance of the cost of the goods is forwarded to the members after the sale is effected. A sound practice will be to get raw material from the members and feed the cooperative factory for manufacture of goods which could fetch a good profit in finished form rather than to sell the raw material. By doing this, the profits of the middle man—the processor—can be made

available to the members. There can be another practice of having direct bids of the material left at the disposal of the society by its members and is sold at a fixed price which is decided before the season sets in. By this manner, a fixed amount of profit is available with the society for further planning and advancement. To select the better practice out of various alternatives, the federation can always help and provide the services of an expert who could analyse the situation prevailing with a society and its trading activity for advising a proper practice to have the trading more profitable for the society.

### **11. Temporary Management of the Society on their behalf**

A cooperative society is normally made up of many individuals who are like-minded and are dealing in the same line of trading and processing business. Normally, the promoted member of the society has to have a bigger say in the day-to-day affairs of the society within the limits of the Cooperatiee Act enforceable in the area. If most of the members are not very careful in judging the efficiency of the work and business of the society, the members who are at the helm of the affairs may take advantage of the society funds and render the society very weak. In their individual capacity, the strong members adopt such practices as to ruin the business of the society making it incapable of standing in the market as a strong trader compared to others and the cooperative society comes to be looked upon as a weak agency. At this stage, the members lose interest in the cooperative activities of the society and as such it becomes very difficult for the society to survive and work effectively for the purpose of which it was founded. Weak societies are many in number as one problem or another has to be faced by them. The major problem is the ineffective management of the society. Since the societies are the base of the federation which is at the state level, it becomes necessary for the federation to take care of its base, the society. A federation can also become very weak if its member societies are mostly weak and unable to pay their annual subscription or are not able to

implement various cooperative schemes properly. Hence the purpose of a federation is also defeated. Therefore, temporarily the management of the weak society should be transferred to the federation for some time in order to remove the various difficulties and bring the society on the path of success. Such facility can very well be organized by the federation by providing the services of manager, accountant and other field staff required by the society on deputation. The expenditure on the salaries of these experts can be subsidized or fully reimbursed by the federation to ensure that there is no financial crisis while the management is being handled by the federation. Keeping the base of temporary management as effective as it can be with the permanent management, the management of the society can be improved so that its people stand on their own feet in the years to come. Normally, the deputed managers and accountants work under the overall guidance of the federation following the various rules, by laws made by the society in the overall perspective of the society to make it a viable unit. The manager would select various categories of staff members keeping in mind their qualifications, experience and other factors required for efficient working. They would have to undergo legal, political and other pressures which may jeopardize his mission by way of fixing their own people in the society to weaken its functioning in a planned manner. The private traders in the vicinity of the cooperative society also sometimes play an important role in weakening the management of the society for their personal benefits. They are always around the corners to make plans, to create problems for the society, give wrong advice to its members and create artificial stands for the society management to take unwanted decisions etc. Therefore, the manager deputed from the Federation has to be very vigilant for taking effective steps to improve the working results of the society taking care of all the factors with a considerable degree of precision. Temporary management of the society should be taken care of by the federation in the over all interest of the society as well as its own. If the society feels that it is unable to develop a suitable management cadre of its own, the services of expert managers or

accountants could be utilized by the society till such time as it is able to manage its own affairs for the benefit of the members.

Looking to the above facts, it may be observed that the federation at the apex level can provide a lot of services which can be categorized as technical or expert services for the benefit of the societies on short and long term ranges.



# Role of Agricultural Cooperatives in Product Improvement Programme

YOUNG KON KOH.\*

## I. Areas of Product Improvement

The fundamental idea one has to bear in mind in relation to marketing is that product improvement or improved quality of a farm product must be considered or assessed from the viewpoint of the final consumer. A horticulturalist and an economist would not be likely to define the quality of fruits and vegetables in precisely the same terms because of their differing fields of interest. Even the agricultural economists are not unanimous in their definitions of quality, though their definitions tend to be oriented to the market place.

In general, the word "quality" can be defined as "the sum of the attributes of a product which influence its acceptability to many buyers, and hence, the price they are willing to pay for it".

Similarly, the aim of product improvement programmes is to make the consumer willing to pay more for the same quantity of a product by increasing its acceptability among consumers. In other words, product improvement programmes aim at the increase of farmers' income from the production or sale of the same quantity of the farm produce.

In this sense, product improvement programmes of the agricultural cooperatives can be classified into three different areas :

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- 1) how to produce or increase the production of quality products;
- 2) how to maintain quality during marketing process from farmers to the ultimate consumers;
- 3) how to maximize net sales return from the given quantity of a product as a mixture of different quality grades.

The first area of the above-mentioned product improvement is more closely related to production stage of farm products while the others are to the marketing stage after harvest. The production of quality products largely depends upon the willingness of farmers to produce better products and on the availability of such technology and inputs as seed and seedlings, fertilizer, farm chemicals, etc.

The second area of product improvement depends on the physical handling techniques of packing, storing, loading and unloading, transportation and processing, while the third area is closely related to grading and standardization, branding, and advertising and other promotional activities of farm products.

## **II. Production of Better Quality**

### **1. BENEFITS OF QUALITY PRODUCTION**

Quality control, not necessarily production of highest possible quality, is an essential part of successful merchandizing programme. Such control is necessary in order to receive the benefits of brand advertising and sales promotion. If consumers find that the quality of a particular brand fluctuates considerably from time to time, they lose confidence in its advertised claims. The brand no longer stands for something definite in the consumers' mind.

Even without branding and a complete merchandizing programme including advertising, quality improvement may result in benefits to participating producers in one or more of four ways ; (1) those farmers producing the higher quality commodity will receive the benefit of market premia for quality, provided that

the producers are individually paid on the basis of quality grade; (2) the producers of a given region or of a cooperative organization participating in a successful quality improvement programme will receive a higher average price for their goods to the extent that buyers in the central or consuming markets recognize the quality superiority and compete more actively for the goods of the region or cooperative; (3) raising the average quality of the entire production of a commodity might raise the general level of consumer demand for the product and hence the average; (4) marketing costs for products of good quality sometimes are lower than for those of poor quality, because of the reduction of spoilage and risk, thus tending to increase farmers' returns with any given level of consumer demand.

## 2. QUALITY PAYMENT AS AN INCENTIVE

Quality improvement programmes which are based upon an appeal to producers' common benefits of a region or member-farmers of a cooperative but which do not reward the individual producer for better quality rarely are expected to be successful. Generally, the improvement of quality involves extra costs and more trouble for the farmer. Unless he can see an immediate and worthwhile additional return, the farmer is not likely to be willing to undertake the additional expense and effort. He may think that he would be benefiting his neighbours or competitors who did not participate in the product improvement programme or that the higher price in the wholesale market would not be reflected in the higher price to himself but would be retained by marketing agencies (or cooperatives) further up the line. But if payment to the individual producer is made on the basis of grade and the associated wholesale market premia or discounts for quality, the farmer has a definite incentive to produce a commodity of better quality. Moreover, such payment is more equitable among individual farmers; those producing the higher quality goods are not penalized for the benefit of the indifferent producers who will not go to the necessary trouble and expense of instituting the improvements.

In this case farmers would find it profitable to produce goods of better quality. But there is a limitation. Farmers will try to improve the quality of goods they produce within the limit of the extra income they earn from producing better quality does cover the additional cost. In other words, the principle of diminishing returns applies to quality improvement. It would be ridiculous to try to prevent every single bruise of potato. There is no economic sense in preaching that every member farmer of a cooperative, everywhere, at all times, should produce better and best quality.

### 3. QUALITY IMPROVEMENT AND QUALITY DIFFERENCES

The benefits of quality improvement and payment by grade depends, for realization, upon the existence of market quality differences in the constituent parts of the total supply and also upon differences in price consumers are willing to pay according to the different quality. If one quality were as useful to consumers as another, there would be no price differential for quality, and quality improvement would not offset consumers demand or prices received by farmers. Similarly, if the quality of the entire market supply of a commodity was raised to that expressed by the top grade, there would be no quality differentials.

This raises the question of whether or not it is possible to expand the total consumer demand for a commodity by raising the general level of quality. For example, if 50 per cent of the product are of grade A and 50 per cent of grade B, and the respective prices for these grades are three dollars and one dollar, it is doubtful that if the B grade portion of the supply were raised in quality to A grade, the average price would increase to three dollars from two dollars. Following any change in the proportion of total output in the A and B grades, of course, there would be a change in the quality price differentials, and the differentials formerly existed furnish no indication whatever of the average price which would result. The price of that portion of the supply originally in the top grade would fall, since consumers would not have to pay a premium

above the average price in order to obtain the higher quality. All of the product now would be of high quality. Present producers of high quality goods, therefore, would be harmed by industry-wide quality improvement programmes.

Assuming that the quality of the entire supply of a commodity is improved to the top grade, the market price differentials would disappear and consumers of low income would have to pay as much as those of high income for the commodity. Unless the average prices were lower than before the quality was improved, some of the low income consumers or low order of preferences for the commodity would drop out of the market. The remaining consumers would take the entire supply only at a lower price.

For the same reasons, agricultural product improvement programme might not wish to raise the quality of all of the products to the top grade; even if it could do so. More important thing in product improvement programme a cooperative manager has to bear in mind is that promoting as wide price differentials or quality differentials as possible by improving quality is more desirable from the producer's standpoint.

#### 4. FOR THE PRODUCTION OF QUALITY PRODUCTS

Existence of price differentials by quality and individual payment by quality may be fundamental necessities for the successful implementation of quality improvement programme of farm products. It is because the producers of agricultural products are individual farmers, not a cooperative. Thus their willingness to produce better quality, based on the confidence that extra income from improved quality would cover additional cost has to be regarded as a prerequisite for the successful quality improvement programme of farm products.

On the other hand, the availability of technology and all kinds of agricultural inputs is an important factor. Farmers' will to improve the quality of their products should be supported by adequate technology and sufficient supply of improved farm inputs

in time at reasonable prices.

In general, the role of agricultural cooperative in product improvement programmes has been directed to this field.

Seeds and seedlings are one of the key elements that influence not only the yields but also the quality of agricultural products. Good seed produces good product. This principle applies to livestock production too. In many countries, continuous effort has been concentrated on improvement or development of better varieties of seed in terms of its potential yields and quality. These kinds of activities are usually under the initiative of the government, but agricultural cooperative organizations are not indifferent to seed improvement activities. Many cooperative associations are participating in the development and supply of high quality seeds to farmers.

In Korea, for example, the National Agricultural Cooperative Federation (NACF), the apex level cooperative organization, instituted its own Seed Improvement Center in 1976. And since then the centre has developed and registered under Seed and Seedlings Management Law 14 varieties of vegetable seeds including radish Chinese cabbage, red pepper and green onion, and in 1981 it supplied 16,700 kilograms of these seeds to member farmers through the local primary cooperatives at reasonable prices. The NACF also has provided diversified kinds of improved high quality seeds and seedlings to its member cooperatives and farmers.

The National Livestock Cooperative Federation, the national level cooperative association in Korea, has made remarkable livestock products by implementing an artificial insemination project. It operates the Artificial Breeding Centre which produces and supplies semen for artificial fertilization. The number of artificially fertilized domestic animals under the project in 1981 was 66,000 heads : 362,000 heads of beef cattle; 146,000 heads of milk cows; 50,000 heads of cross-breeds and 48,000 heads of hogs. For the effective and systematic improvement of livestock breeds, a live-

stock artificial fertilization technician was assigned to each local livestock cooperative.

In addition to seeds and seedlings, all kinds of agricultural inputs and technology have a significant influence on the quality of the products. For this reason, many cooperative organizations handle such farms as input fertilizer, pesticide, insecticide and farm machinery through their purchasing business, to supply member farmers with those farm requisites in proper time and at reasonable prices. And the farm extension activities also have to be considered as an important factor in the product improvement programme for the diffusion of new farming technology.

In Asian region where semi subsistence farming or small farmers are prevailing in the whole of agriculture, group farming system and farm machinery pool may be a useful strategy in encouraging farmers' adoption of new technology. Various types of subsidy or financial assistance, and such educational and promotional activities as operation of demonstration farm and holding of farm product quality contests also may be taken into consideration for the promotion of product improvement.

### **III. Maintaining Quality During Marketing Process**

#### **1. NEEDS AND BENEFITS**

Quality of a commodity is finally assessed by the consumers who pay for it. In a marketing system in which considerable quality deterioration is usually expected during the marketing process, the consumer price for the deteriorated quality is necessarily reflected in the price received by farmers even though several intermediaries are existing between the farmers and consumers. In such circumstances, it is no use producing higher quality goods. Neither the farmer's income nor the consumer's welfare would be increased by the improved quality at the production stage. For the successful implementation of product improvement programme the quality of commodities produced by farmers has to be maintained during the marketing process.

Every physical handling services necessarily required in marketing have to be done so as to minimize quality deterioration for the maintenance of the quality. Packing, storage, transportation, processing, loading and unloading are the major physical services that influence the quality of the product during the marketing process

Careful handling begins in the field and is imperative through every marketing step up to the ultimate consumer, and the specific gains expected are:

- a. less damage to products and correspondingly lower marketing cost and avoidance of waste;
- b. consumers are likely to pay a higher price to the financial advantage of both producer and trader;
- c. carefully stored products can wait for a good market, whereas poorly handled products cannot;
- d. marketing can proceed more smoothly without interruption in order to repair damaged containers or to remove decayed products, etc.;
- e. expansion of the market in that commodity can be offered to consumers over a longer period and at further distances.

## 2. AREAS IN NEED OF COOPERATIVE'S ACTION

### **Packing**

Packing is an inevitable process of marketing because most farm products usually have to be packed in order to be marketed efficiently. It serves several important purposes. Packing increases convenience in handling; facilitates measurement, labelling and attachment of sales instructions and descriptions; makes theft, adulteration or substitution more difficult; and promotes sales by increasing attractiveness in appearance to consumer and suitability as an advertising medium.



However, one of the most important functions of packing is the protection of goods during the marketing process. It is a critical marketing step in quality maintenance among the whole marketing process, not only because good packing minimizes physical damage during every subsequent marketing phase up to the ultimate consumer but also a considerable degree of quality deterioration is usually expected at the packing stage itself.

The kind of packing material, the type and size of containers, and the method of packing varies widely with the character of the commodity, the physical and climatic environment, the phase of marketing, and the economic relationship between the price of the commodity and the cost of packing. Thus, it is impossible to argue that any particular type or method of packing is suitable to minimize the physical damage during marketing process.

But it is certain that the role of agricultural cooperative to improve packaging of farm products have to be emphasized for the successful implementation of product improvement programme. Production and supply of packing material at reasonable prices through purchasing business of cooperatives may be a good example. The National Agricultural Cooperative Federation (NACF) of the Republic of Korea provided member farmers with 4 million pieces of paper bag and polypropylene bag for the packing of grains and other dried products, and 12 million of corrugated paper boxes for fruits and vegetables like tomato and cucumber in 1979. And a member cooperative of the NACF have been operating 12 citrus packing centres equipped with grading and packing machines, since early 1970s.

Extension of long-term or short-term loans to encourage establishment of modern packing plants or introduction of new packing methods may be essential. Various types of subsidies in relation to the improvement of packaging must be considered as an incentive to the member farmers.

### **Storage**

Storage, of course, is an another imperative physical marketing

function that influences the quality of commodities after harvest. Inadequate storage is the cause of heavy losses in terms of not only quantity but quality, and usually results in an increase in marketing costs. Storage losses of farm products occur at all marketing stages between the field and final consumption.

The first major step to reduce storage losses is to encourage well-designed storage facilities. The best storage for particular products must be ascertained for varying conditions and storage practices modified accordingly. It is known, for example, that different agricultural commodities have different temperature and humidity requirements for optimum maintenance of quality.

Great advances have been achieved in the application of scientific techniques to the conservation of farm products. Various kinds of physical and chemical approach have been developed and practised usefully in storing of agricultural commodities at different marketing stages. However, in many cases, it requires a lot of capital and sophisticated knowledge that individual farmers are not expected to cope with them easily.

For this reason, many cooperative organizations supply with the storage services for their member-farmers. In Korea, for example, primary cooperatives are equipped with a total of 11,166 warehouses, and the total storage capacity reached 3,815,000 M/T at the end of 1981. Many of those warehouses were constructed with funds supplied by the national-level cooperative organization (NACF) in the form of long-term loan or subsidy. Banking activities and foreign loans have been the major sources of funds for long-term loans to primary cooperatives.

In addition to the construction and operation of warehouses owned by cooperative organizations, credit activities of agricultural cooperatives for the improvement of relatively simple and small-scale storage facilities of member-farmers or intermediaries in various marketing stages should be emphasized.

All kinds of educational or extension activities in the field of

designing or modification and operation of storage facilities also may be of great help in the maintenance of quality of agricultural product after harvest.

### **Transportation**

Transportation is an important marketing sequence that influences the quality of farm product. At every stage in the marketing process there is some dependence on transport. The farmer carries small quantities from the field to farm sheds and thence to the local buyer or auction market. The retailer also moves small quantities to his shop. In general larger scale transportation is undertaken by local buyers, wholesalers, processors and importers.

Transportation may be effected by hand, pack animal, horse, motor vehicle, railway, ship or air. In each case quality maintenance in relation to the transportation is one of the most important factors to be considered by the agricultural cooperative organization.

For short distance transport, the main considerations are protection of the product against physical damage and exposure to contamination or extremes of temperature. Simple aids and appliances such as various types of costs may be greatly useful in minimizing quality deterioration during short distance transportation and loading and unloading.

Belt conveyors, wheel or roller conveyors, vertical folklifts and pallets may be used wherever possible. For long distance transportation whether the product is packed or in bulk, precooling and refrigerated transporting method may be adopted.

For minimized quality deterioration, agricultural cooperatives have to examine what is the main source of physical or chemical loss in terms of quality of the goods in relation to transportation. Cooperatives may conduct field studies to identify the problems.

Well-designed simple tools or appliances may be supplied to

the farmers by the cooperative system. Credit services or educational activities may be inevitable.

Some cooperative organizations operate their own transportation facilities to provide member farmers with modernized transport services at proper time and reasonable costs. Sometimes cooperative owned transportation equipments are closely related to the packing, processing and storage activities of the cooperatives

#### **IV. Grading and Standardization**

##### **1. BENEFITS OF STANDARD GRADING**

Uniform agricultural products are very rare, even under ideal and identical conditions. When a product is sold by grades, indicating the quality, consumers can readily obtain the type of product best suited to their different uses, discriminating tastes, or purchasing power.

Standardized grades also facilitate evaluation during transactions, reduce the need to examine each lot in detail and for cases to be unpacked and repacked for each potential buyer. In the complex mechanisms of agricultural marketing, standardization cuts down the risk of a buyer acquiring low-quality product: he may then pay a higher price because there is less need for an allowance against possible deception.

With some farm products, standardized grade may give such confidence that transaction can proceed by sample and by description. A standard product in standard containers will also keep better with less waste, and modern handling, transport and storage techniques can be applied more easily. It also favours the pooling of lots from various sources for sale as one consignment, with attendant savings on transport costs. Standard grading with proper packaging can stimulate the consumers' desire to buy the product. Furthermore, standardized grading by farmers can eliminate possible disputes in transaction and can be an effective device to eliminate the quality margin.

For these reasons, standardization and grading of agricultural products are desirable and have been recommended strongly. But they are much more widely accepted in some areas of agricultural marketing than in others, depending on the nature of the trade. They can be established under the initiative of government or cooperative organizations. Standardized grading with cooperative branding may give much more confidence to the farmers and hence may increase sales return to the farmers. But, for the successful establishment of standardization and grading, some preconditions and criteria have to be examined deliberately.

## 2. PRECONDITIONS FOR STANDARDIZATION

Products for export or sale to the markets where trades are by grade must be standardized. However, there are many examples that great efforts are undertaken where the need for uniform grades on internal markets is not so clear. Many consumers of some products in some countries are not very concerned about uniformity. They may even prefer a lot of mixed size or maturity with the intention of using it for different purposes or at different times. Therefore, a cooperative organization or government has to examine the following factors before any attempt to introduce grade standards.

- a. Does the country or the region produce a reasonable volume of uniform products? If not, possible higher prices for a small percentage of the crop would not compensate producers for a large porportion of discards.
- b. Are there substantial groups of consumers ready to pay higher prices for graded produce? If only a small number would do so, much of the high grade product may remain unsold and the cost of grading may not be reimbursed.
- c. Would enforcement of voluntary or compulsory grading be practicable? Cost, staffing and physical opportunities to check products are all involved. Export products must pass through a limited number of ports, or frontier stations,

whereas sales may be dispersed over many local markets and maintenance of an adequate crops of inspectors would be far too expensive.

### 3. PRACTICAL CRITERIA FOR GRADES AND STANDARDS

In the establishment of standard grades of agricultural products, certain criteria may be recommendable to the cooperative organizations. Standards should be based on the quality of the commodity actually produced and marketed. They should deal with the marketable part of the crop, from the best to the poorest marketing allowances for the various defects that show up under conditions of commercial production and handling. An agricultural cooperative has to design the standards so that they will be useful to as many member farmers, processors, traders and consumers as possible. Standards have to be based on the factors that are practical to apply and can be applied uniformly. The different quality factors important to buyers throughout the marketing system must be weighed systematically, because if the quality differences do not result in a price differential or affect marketing, neither the buyers nor the sellers will go to the trouble and expense of grading.

Standards must be kept realistic in terms of the commodity produced and marketed. Amendment may be inevitable from time to time to take into account basic changes in either production or marketing methods, in buyers' preferences and in the means of measuring quality.

# Causes of High Cost of Marketing

LIONEL GUNAWARDANA\*

## Introduction

**M**ARKETING involves all business activities that have to be performed in bringing the agricultural produce from the farm to the ultimate consumer. Thus, it includes activities such as collection of marketable surplus from the farms, their transport, assembly, grading, processing, packing, storage and sale to the ultimate consumer.

In Asian countries, where the economy is dominated by agriculture, arrangements for marketing of farm produce assumes vital importance.

The cooperative movements in the countries of the South East Asian region have assumed a position of increasing importance in their present economies and they have been instrumental to a great extent in fostering the general welfare of the people. In most of the countries in the region the cooperative movements have functioned for long periods. However, the entry of the movement into marketing business is of comparatively recent origin. The cooperative movements, which were initiated mainly for providing credit for the farmers, hesitated at the beginning to enter the field of marketing. It was in the 1930s that the movements in most of the countries in the region attempted to enter this field. It has been a very difficult task for the cooperatives to compete with the private traders who had entrenched themselves in this field, and at the beginning failures exceeded successes. Though in many countries in the region the marketing cooperatives are doing commendable service they fall far short of their potentialities.

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## **Structure of Agricultural Market**

The structure of the agricultural market in the countries of South-East Asia follows a somewhat uniform pattern. The primary producer sells his produce largely in the village itself. The traders from cities also come to the villages for collecting produce or make their purchases in the villages through their agents. In this method of sale the farmers are saved the botheration of having to take their produce to distant markets, though they may get lesser prices for their produce than they would get if they sold them in markets situated in the cities.

There are weekly or bi-weekly markets in central places covering group of villages. The farmers bring their produce to those markets on fixed dates and sell to traders who come to make purchases.

The large-scale producers normally bring their produce to the bigger cities for sale which enable them to get higher prices for their produce by avoiding the middlemen.

## **Structure of the Marketing Cooperatives**

In most of the countries of the region the structure of the marketing cooperative movement is of a federal type, but the pattern of organisation is not uniform. Generally, however, it is three-tiered. The primary societies cover a village or group of villages. These societies are federated at the district or regional level. The districts or regional federations are further federated into apex organizations at the state or national level.

## **Reasons for High Cost of Marketing**

As pointed out earlier, the farm produce has to undergo a chain of process which are together termed as marketing before they reach the hands of the ultimate consumer. These processes are essentially productive, for production is the creation of utility. What the farmer produces on the farm is only the raw material.

It is the marketing process that adds form, place, time and possession utility to them. Obviously, this complicated process of



marketing adds to the cost of the product as much as it adds to the utility of the product. Surveys conducted in the United States of America have shown that on the average as much as 57 per cent of what the consumer spends on food items goes to meet marketing charges and only 43 per cent goes to farmers.

A table showing producers' price, distribution cost and retail prices of some agricultural produce in Japan is given below :

**Producers Price, Distribution Costs and Retail Price of Fruits & Vegetables in Japan for 1985 Given in Percentage**

	Producers' Price	Transport	Packing	Agril. Coop. Commission	Whole-sale Commission	Whole-sale Price	Retailers margin	Retail Price
Radish	42	10	1		5	58	42	100
Chinese Cabbage	34	25	2		6	67	33	100
Cucumber	64.8	1.9	3.7	1.6	6.7	78	21.3	100
Apples	46	7	12	3	5	73	27	100
Orange	61	4	5	2	5	77	23	100
Peas	40	5	13	1	4	63	37	100
Grapes	59	2	6	1	5	73	27	100

The share the farmer gets from the consumer's price also varies from one commodity to another. This is because the marketing of some products is more complex than that of others. For instance, the farmer's share of what the consumer spends on bread is much lower than his share of what the consumer spends on rice.

The fact that marketing adds to the price of commodities should not be a reason for complaint by the farmers or for that matter by anybody else, as it is an essential part in the process of production as much as the activities that go on in the farm.

However, considering the substantial part of the consumer rupee that goes to pay the marketing charges, it is an area where attempts should be made to effect economies, not only to increase the farmer's share of the consumer's rupee but also to bring down what consumer has to pay for his food.

Agricultural commodities by their very nature are more costly to handle than industrial goods. Following are some of the reasons for this high costs of marketing of agricultural produce arising out of the nature of the agricultural produce as well as other factors that influence their marketing.

### **BULKINESS**

Most of the agricultural produce are bulky in relation to their value. Hence they require more space in storage and transport which would tend to increase the marketing cost. The labour charges for handling are also high as payment for handling has to be made on weight and volume and not on value.

### **PERISHABILITY**

The perishable nature of agricultural commodities makes it necessary to have special arrangements for storage, transport, etc. Produce has to be moved from the farm to the market swiftly and special conditions for storage like refrigerated warehousing may be necessary. The spoilage and deterioration on storage and transport are greater.

### **SEASONALITY**

Farm output is seasonal in character. But the demand for them, at least for certain commodities like foodgrains, are relatively steady throughout the year. This makes it necessary to store large quantities for long periods to balance the seasonal production with throughout the year consumption demand. In case of commodities that are produced and consumed in particular seasons they require storage and other facilities that may not be used during the rest of the year.

## LOCALISED NATURE OF PRODUCTION

Particular crops can be grown only in particular areas while consumption is widespread. Mostly they are grown in places which are distantly away from the population centres. These situations necessitates long distance transport of agricultural produce.

## THE SMALL SIZE OF THE FARM

Usually farms in the countries of the South-East Asian region are small. Therefore, each farm-hold has only small quantities of marketable surplus. The collection and assembly of these small lots from scattered farms become a costly affair.

## LACK OF UNIFORMITY OF CROPPING

Often it is found that a number of crops are grown in the same area. Even when one crop is grown there may be several varieties. This makes their collection, grading and storage complicated and expensive.

## LACK OF WELL-DEVELOPED INFRASTRUCTURE

The difficulties encountered in transportation of agricultural produce from scattered farms are also a contributing factor to the high cost of marketing. Much go waste due to the delays in moving the produce to the consuming or processing centres.

## COMPETITION

Competition among various agencies that are engaged in marketing activities is yet another reason that makes marketing costly. Due to the competitive nature and the existence of multiplicity of agencies in the field and the maintenance of various facilities separately by them, full utilisation of these facilities do not take place, thereby increasing per unit overhead expenditure for the marketing operations.

## WAYS OF REDUCING COST

It was pointed out realier that a substantial share of the consumer's rupee goes to pay the marketing charges, and the share that

goes to the farmer is small. However, it is necessary to point out that the important thing is not the size of the share the farmer gets, but the total return he receives and its relation to his cost of production. Therefore, efforts have to be made to reduce marketing cost not merely to reduce the share that goes to pay the marketing charges but to increase the farmer's returns while keeping the consumer's price as low as possible. It is also important to note that as standards of living of the people improve, there will be an increasing demand from the consumers for more processed and elaborately packed food items, which tend to increase the marketing cost. These demands have to be met and these processes cannot be avoided in order to reduce the marketing cost.

## ORGANISATION OF COOPERATIVES

The first step the agricultural producers need to take in reducing marketing cost is to organize marketing cooperatively as it is only then that they can exercise a control over marketing operations of their produce. The organization of marketing cooperatively will result in deriving the advantage of economies of scale as it would enable the pooling of resources in maintaining various facilities necessary for large-scale marketing operations and their utilisation to the maximum extent thereby reducing the overhead cost.

The organization of cooperative marketing has taken place under two situations.

- (a) to provide facilities of marketing where these functions were non-existent.
- (b) to provide an alternative to the private trade, where marketing services were performed solely by the private traders.

In situations where facilities for marketing are non-existent the importance of organizing marketing cooperatives needs no explanation.

It is of course, hard to find areas where some sort of facilities for marketing are non-existent though they may be inadequate.

However, there are areas where no organized marketing facilities are available for certain commodities.

Where facilities for marketing are provided solely by the private trade, need for cooperative marketing arises first because of the defects and malpractices in the private trader monopolized marketing system. Private traders, as mentioned earlier, have entrenched themselves in the marketing business in most of the countries in the region and they have their own trade channels and through an integrated structure of their own, control the market and manipulate prices. They use money lending as a tool to gain control over farm produce. The farmers who are eternally indebted to the traders hardly have any bargaining power and are almost compelled to surrender their produce at whatever prices the traders fix for them. The All India Rural Credit Survey Committee, describing the powerful position of the private trade in India with regard to marketing remarked, "often enough, the cultivator's position is that of having to bargain if he can, with someone who commands the money, commands the credit, commands the market and commands the transport". Under these circumstances cooperative marketing is the best solution if not the only solution to save the farmers from the clutches of the private trade. The proper and efficient organization of a cooperative marketing system will help the producer to obtain a fair price for produce by reducing the price spread between the producer and the consumer.

Other reasons in favour of cooperative marketing may be enumerated as :

- (a) It not only supplies an alternative to private trade but also disciplines the private trade.
- (b) It educates and trains the farmers in business.
- (c) It helps the consumer by way of comparatively low prices by eliminating middlemen.
- (d) It helps to make the plan of agricultural production more effective by making agriculture a profitable pursuit and encourage the farmer to produce more.

## INTEGRATION—VERTICAL AND HORIZONTAL

An examination of the present status of the marketing cooperatives in the region would suggest that there is a great need for both horizontal and vertical integration of marketing cooperatives, as much as, if not more than, in the other sectors of the movement. The vertical integration and the creation of economically viable units will enable the society to employ well qualified and better trained personnel in their management which is essentially a prerequisite for effective management. It will enable the societies to derive the benefits of the economies of scale by being able to handle larger quantities of commodities. This will also avoid unnecessary competition which results in wastage of limited resources.

The vertical integration of the marketing cooperatives into unions will bring about better cooperation and coordination among individual cooperatives. The union will be in a position to handle more complicated, specialised and heavy capital consuming activities like processing which individual cooperatives may not be able to handle.

## ENGAGING IN SUPPLY OF AGRICULTURAL INPUTS

It is important for marketing cooperatives to undertake supply of agricultural inputs. Apart from the fact that it is easier for the agriculturists to draw their supplies of agricultural inputs from the same society, there are several economies that could be effected by combining the functions of marketing and supply in one society. For instance, considerable saving can be effected in transport by combining the delivery of the agricultural inputs to farmers with the collection of agricultural produce from them.

## INTEGRATION OF MARKETING AND CREDIT

Prior indebtedness of the farmers to private money lenders have been an obstacle to the progress of cooperative marketing. The farmers are compelled to sell their produce to the private traders due to their indebtedness to them and are unable to bring their produce to the cooperative marketing societies, even if they are

willing to do so. This deprives the cooperative marketing societies of a substantial portion of their agricultural produce and in certain cases they may not get sufficient quantities necessary for efficient marketing. To overcome this, marketing societies should extend credit to their members for production purposes, at least in places where facilities for cooperative credit is absent or inadequate.

## DEALING IN ALL AGRICULTURAL COMMODITIES

The farmers who deal in a number of crops may find it difficult to deal with the number of societies. Handling of marketing of all crops grown by the farmer-members by one society will undoubtedly contribute to the reduction of marketing costs by facilitating easy collection and payment for them and the common use of the facilities necessary for marketing operations. Wherever it is necessary to employ special methods for collection, storage, etc. of different commodities and where specialised knowledge is necessary the cooperative marketing societies may set up different sections to handle different commodities but under one coordinated management.

## LINK WITH CONSUMER COOPERATIVES

Creation of an effective link between marketing cooperatives and consumer cooperatives at various levels is yet another field that must attract the attention of both marketing and consumer cooperatives. Such an effective link would be beneficial to both types of societies. The marketing societies will find an assured outlet for their produce and may be able to bring about considerable reduction in marketing costs by directly dealing with the consumer cooperatives. The consumer societies can feed the marketing cooperatives with market information regarding consumer preferences, etc. which they can pass on to the agriculturists so that they can adjust their production plans in the long run to suit the consumer demand. The consumer societies will have direct access to the sources of production. Therefore, it is in the interest of both these types of cooperatives to have closer coordination and cooperation among themselves.

## UNIFORMITY IN PRODUCTION

Growing of multiplicity of crops and different varieties of the same crop in the same area make their handling difficult and costly. For instance, if different varieties of paddy are grown in an area covered by a single marketing society it becomes difficult for the society to arrange for their collection, grading, storage and processing. This is an area where farming guidance as well as marketing intelligence services of the cooperatives have important functions to perform. Agriculturists must be properly guided in the desirability of growing fewer and if possible one variety. The selection of the varieties should be based on consumer preferences.

## GRADING

Grading is another area which must get adequate attention of marketing cooperatives. When agricultural produce is not graded into different qualities they fetch low prices and thereby not only reduce the total return to the agriculturists but also increase the per unit cost of marketing in relation to their value.

## STORAGE AND TRANSPORT

Storage and transport are some of the major factors that influence the cost of marketing. The greatest possible care should be exercised in those fields to ensure efficiency. Packing of agricultural produce in good containers to avoid their wastage and deterioration on storage and transport is very essential. As far as possible cooperatives should have their own storage and transport facilities.

## PROCESSING

Processing is the single stage that adds the greatest utility value to the agricultural produce and in most cases largest costs in the marketing process is involved in this stage and any agency that wishes to exercise control over marketing operations must have an adequate control over this activity. Therefore, it is necessary that marketing cooperatives must have processing units as an adjunct to the normal marketing operations. The marketing cooperatives



which would have experience in handling the agricultural produce in the raw form can utilize that experience in setting up processing plants. Undertaking of processing activities, for instance, in case of paddy, will not only help the agriculturists in getting a higher margin for their produce but also in reducing the transport and storage costs.

## MODERNIZATION

A large part of the cost of marketing is also attributable to the cost of labour. Methods of reducing labour cost by introducing modern machinery and labour saving gadgets in all stages of marketing have to be employed if this cost is to be reduced. It is not only in reducing labour cost that modernization becomes essential. Even to enable the handling of increasing production and increasing demand for finished product by the consumers whose standard of living is steadily improving, introduction of modern machinery becomes necessary. Proper training of labour is another way of reducing per unit cost of labour.

## EFFICIENT ORGANIZATION

The need for efficient organization of marketing activities at all levels and stages as a surest means of reducing cost needs no emphasis. In this respect the organizational structure of the marketing cooperative movement as a whole as well as that of the individual marketing cooperatives needs to be examined. In a federal type of structure that exists in most of the countries in the region, the cooperative organizations at various levels should only be allowed to exist if they perform useful functions in the effective discharge of marketing operations. Duplication of efforts has to be carefully avoided, lest they add unnecessarily to the cost of marketing. Creation of number of organizations at various levels may result in unnecessary movement of stocks and extra handling cost. In the absence of a proper organization of the cooperatives the extension of the cooperative principle into the marketing business will only court failure and frustration.

# Product Identification and Promotion for Agricultural Marketing Cooperatives

Dr. S.P. SEETHARAMAN\*

**T**WO major tasks of agricultural marketing cooperatives (AMCs) are supplying inputs and marketing outputs so as to increase the income of farmers. Most AMCs, though christened as marketing cooperatives, are engaged in distribution of inputs like seeds, fertilizer, pesticides, agricultural machinery, and, in some cases, custom hiring of tractors and other farm implements. The major objective in many cases has been to ensure timely supply of inputs. Members are expected to benefit through savings effected by bulk buying and efficient distribution. Generally AMCs are averse to risk taking. They prefer, even in supply and distribution tasks, those where government's preferential treatment is extended to cooperatives.

Marketing of outputs, the other major tasks, poses severe challenge and at the same time an opportunity to AMCs, to confer benefits to farmers. In output marketing the major task of any general manager or marketing manager will be to explore opportunities for increasing income of member farmers. The differences between supplying inputs and marketing outputs are summarized:

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Supplying Inputs	Marketing Outputs
1. Emphasis on members' need	1. Emphasis on customers' want
2. Supplies inputs manufactured by others/itself	2. Identify consumer product need, and consider farmers profitability and produce
3. Government protection generally exists	3. No government protection

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- |   |  |
|---|--|
| <p>4. Tasks to be managed are limited to a few</p> <p>5. Limited risk</p> <p>6. Aims at savings in farmers' expenditure</p> <p>7. Research and communication need limited</p> <p>8. Backward intergration to manufacture inputs may become necessary to ensure quality, timely supply and control</p> | <p>4. Tasks to be managed are several</p> <p>5. High risk</p> <p>6. Aims at increasing farmers' income</p> <p>7. Holds tremendous implications on research, communication, channels etc.</p> <p>8. Output processing and by-product utilization becomes necessary to increase value addition</p> |
|---|--|

### **Focus of Chapter**

This chapter is focussed on output marketing. A conceptual framework is given on product identification, marketing research, and communication so that a general manager or a marketing manager of any AMC can use this framework for developing or evolving appropriate action strategies depending on the crops grown in the region. Concepts are generalized across products because any attempt at particularization would be voluminous. The generalisations are not based on any empirical study but on the author's experience gained through field visits and sharing experiences with the executives of AMCs'.

### **ROLE PERCEPTION OF AMC**

As in industry, agricultural production is also getting concentrated in certain regions. This is mostly owing to agroclimatic conditions and sometimes to availability of favourable infrastructures that support cultivation of specific agricultural commodities. Sugarcane cultivation and processing, mostly concentrated in a few northern states till recently, has taken roots in states like Gujarat where it was unfamiliar to most farmers. Sugar cooperatives have played a dominant role in this process. In Surat when cotton became profitable, groundnut lost its hold. In this same

region when canal irrigation was made available, paddy and cotton lost their area to banana and sugarcane. These changes in crop protection are widening the distance between the producer and consumer. Time has come when the producer should closely watch and anticipate consumer needs and produce only those that would be needed. Some of the AMCs have started initiating this process of matching production with consumer demand. In 1982 when the demand for extra long staple cotton started declining, a state marketing federation discouraged its members from growing this variety. If AMCs desire to achieve the goals set before them, they should clearly define their roles.

Is it an agency providing a link between farmers and consumers ?

Is it a wholesaler or semi-wholesaler ?

Does it perceive its role as an agency to push outputs and distribute them ?

A narrow definition and role perception would only make AMCs a passive agency to merely help transfer of goods from producer to consumer. A wide perception of their role would mean that they should carry out tasks such as transporting, storage, financing, risk bearing, insurance etc. but more importantly, they are expected to identify consumer needs, get them produced and sell. In other words, they are farmers' organizations meant to organize production and market the output. *A marketing cooperative is a producers' organisation with decentralised production and centralised marketing.* If this definition of role is accepted, the managerial process would be :

Identify needs of agricultural goods of different consumer segments ;

Identify farmer-members' capabilities to produce the commodities needed ;

Organize production and arrange to pool the goods ;

Identify and appoint an appropriate channel for reaching the selected target segments ;

Determine a price remunerative to the producer and reasonable to the target consumers ;

Communicate the availability of the products and its price and marketing channel to reach the consuming target to enable it to buy the product.

Four of these steps (product, channel (place), price, and promotion) refer to the **FOUR KEY** elements of a marketing strategy popularly called as **4Ps** in marketing management language. In this chapter, two key elements, namely product and promotion, are discussed. Research that is meant to support these two is also discussed.

### **Product Identification**

The first decision of a manager of any **AMC** should be what commodity to produce, of which variety and in how much area it should be cultivated. This implies that the top executives have an idea about the agro-climatic conditions of the area and crops that could be produced. They should also know the cost of cultivation of different crops and the relative profitability of each of them. The second step would be to know the product from the consumer view point.

The logical step would be to categorise the products on the basis of buyer knowledge, buyer effort, purchase motives, seller effort, elasticity and product complexity, which will determine the appropriate marketing-mix. For the purpose of understanding, agricultural commodities have been classified as food and non-food products. Food products are sub-classified into three categories, non-food into two categories. The first sub-category refers to all food goods sold as they are or with minimum processing. This sub-category includes items like liquor, tobacco, coffee, tea, etc. Non-food, industrial raw materials includes items like rubber, jute, cotton, etc.

An **AMC** dealing with pulses, should realise that the consumers' product knowledge would be generally very good. Utility is the main motivating factor to purchase these goods. Seller effort is minimal. The commodity is inelastic. Since most of these goods are consumed with other goods and frequently, consumers may not put in much effort to get goods of their choice.

Table 1

## Product-Market Profiles of Agricultural Commodities

Type of Products	Buyer Knowledge	Buyer Effort	Purchase Motives	Seller Effort	Elasticity	Product Complexity
<b>Food</b>						
(a) Cereals, Pulses, Fresh fruits and Vegetables, Spices	Very good	Average	Utility	Less	Inelastic	Low
(b) Convenience Food	Good	High	Utility	More	Slightly	Average
(c) Liquor, Tobacco, tea, Coffee, etc.	Very good	Very high	Socio-psychological	More	More	Very high
<b>Non-food</b>						
Industrial Raw Material	Very good	Very high	Utility	Less	Elastic	Very high

When the product happens to be a raw material for some industry, the buyer would have full knowledge about the product, however complex it may be. The need being specific, the buyer would take any amount of effort to seek the raw material of his choice. Utility would mostly be the motivation for purposes. Seller effort would be less. The product would be price elastic.

Having understood the product categorization, the next logical step would be to understand the need for product differentiation. It is often presumed that in agricultural commodities product identification and development are not necessary to meet the consumer need. This (mis) understanding is largely owing to poor appreciation of the fact that there is a wide range of varieties in any given agricultural product. For instance, within rice (product line), product differentiations would be made on the basis of length, thickness, smell, look, colour, outturn, and quality after cooking. There are definite consumer preferences on the basis of any one or more of the above product features.

A retail shop selling two product lines, say wheat and rice, may have to keep at least 10 varieties.

Product Lines	Depth of Product (Varieties)	
Rice	1 2 4 3	1 2
	Raw Rice	Boiled Rice
Wheat	1 2 3 4	

Product differentiation is more critical in non-food agricultural commodities. Demand for cotton is based on staple length. A spinning mill set up to produce lower count of yarn would not consume long staple cotton varieties. This is because for processing, quality specification of raw material is important. A district wholesale marketing cooperative in its attempt to find new markets for the locally produced tomatoes ended up with a lucrative export or-

der to supply tomato purres with financial support from the government to import machinery to produce it. When the first lot was processed, it was found that the local tomato was unsuitable owing to high Alkali content. The marketing society had only two options; convince local farmers to grow a different variety of tomato with unsuitable cultivation practices ; leaseout or sell the machinery.

This analysis shows that an AMC would have to identify different consumer segments for specific varieties in different regions. It should keep track of the shifts in tests of consumer segments. Knowledge about price elasticity for different varieties among different income groups would enable the AMC to arrive at a rational allocation of resources. It should disseminate information to farmer members to ensure that production matches demands more importantly it facilitates farmers to get a reasonable price for the produce.

### Product Strategy

The relative importance of the elements that need to be managed in the product strategy are given in Table 2.\*

**Table 2**  
**Relative Importance of the Elements of Product Strategy**

Elements of Product Strategy	Food			Non-Food
	Cereals, Pulses, Fruits, Vegetables, Spices	Convenience Food	Liquor, tobacco, tea, coffee, etc.	Industrial Raw Material
Technical Research and Development	Medium	High	Very high	Very high
Main and By-product Processing Development Research	High	High	Very high	Very high
Market Research	Low	High	Very high	Low
Style R & D	Low	Medium	Very high	Very low

\* See Jon G. Udell, *Successful Marketing Strategies in American Industry*, (Madison : Mimir Publishers, 19), PP.85-102.



Agricultural research priorities, except in the case of industrial raw materials, are not fixed in consultation with consumers. Scientists in their pursuit of knowledge may not always give importance to consumer needs. This situation would have to undergo a change and AMCs would have to play a crucial role in this. Seasonality is an important factor in agriculture and it creates problems for producers as well as consumers. Research effort in reducing the seasonality could help all. Similarly, preservation and storage can play a crucial role in increasing value. A national marketing federation set up a research division for onion to identify varieties for different seasons and reduce storage loss. If AMCs are involved in technical research, it would yield far better results because they would start monitoring and controlling the results to enable the organization to benefit.

In any agricultural commodity, both main and by-products have tremendous use. The extent of processing needed differs. The product strategy would depend on this.

Even after product categorization, product identification and then differentiation, still a number of options may be open for AMCs while implementing the product strategy. The AMC may decide to sell after processing or without processing. This would depend on the profitability and feasibility of taking such an operation. For example, an AMC may sell paddy of a specific variety as paddy or may decide to process it and sell it as rice and also use the by-products so that the farmers income could be substantially increased. A recent study by Profs. V.K. Gupta and V.R. Gaikwad, found that value addition by using all main and by-products in paddy increased the income by 550 per cent, more than selling as paddy\*\*. In another study on cotton, it was found that selling

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\*\* V. R. Gaikwad and V.K. Gupta, *A Guide to Management of Small Farmers' Integrated Rice Cooperatives in Asia* ; Ahmedabad, Centre for Management in Agriculture, I.I.M., Ahmedabad, 1979.

cotton as lint and seed increased the value addition to farmers by 18 per cent.\*\*\*

On the basis of the above analysis, an AMC could easily decide the action programme in respect of different products. In the case of cereals, pulses, fresh fruits, vegetables and spices, it would focus attention on identifying product varieties that add utility to consumers, develop packaging to preserve the utility of the product for a long period, and study effective ways of delivering the product to consumers.

### **Marketing Research**

While discussing the key elements of a product strategy, four types of research efforts were mentioned. The first among them relates to technical R & D for product development. Carrying out technical R & D needs strong market research. These researches would include development of varieties to increase productivity, preservation, transportability, look, smell etc. In cotton, a variety has been developed which is high yielding in a short duration so that farmers' cotton yield would be high and the land would be available for one more crop. Research regarding processing was discussed earlier.

Market research is becoming increasingly important because of the widening gap between the producer and the consumer, and the presence of a large number of intermediaries who fill the gap. The primary purpose of market research is to find out efficient ways and means of minimizing risk and expenses while reaching the product to consumers staying in remote corners. It is a communication channel or link between centralized management (producers cooperative) and decentralized market.

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\*\*\*SP Seetharaman, N. Mohanan and K K Gupta, *Management of Integrated Cotton Cooperative System to Reach Small Farmers*, 1980, Ahmedabad, Centre for Management in Agriculture, I.I.M., Ahmedabad.

Market research could be broadly classified into four major categories and several sub-categories. They are shown below :

### **Major and Sub-Areas of Market Research**

- |   |  |
|---|--|
| I. Market Measurement -<br>Studies              | Demand Supply forecast<br><br>Identifying market segments and their potential consumer surveys   |
| II. Studies of Influences on controllables      | Product research studies (new product acceptance, testing packaging).<br>Appriaisal of communication<br>Appraisal of sales opportunities<br>Appraisal of sales performance<br>Appraisal of sales methods, incentive<br>Studies on pricing<br>Physical handling, transportation<br>Distribution costs |
| III. Studies of Competitive Situations          | Market share study<br><br>Study of strength and weakness of competitor product<br>Competitors advertising and pricing strategy studies   |
| IV. Studies on the influence of Uncontrollables | Credit Policy of Banks, Rainfall, Drought Information, Irrigation Projects, Land Ceiling Acts, Flood, Pest Attack<br>Government policies and their implications.   |

From the above statement it could be seen that marketing research helps in systematic understanding of the problems related to marketing. which facilitates not only better understanding of the

problem but also finding of suitable solutions. At this stage, a word of caution is in order. The identification and definition of the problem for research is the first step that a management should address itself to before rushing for a consultant. The role of the researcher would be to shift facts from symptoms and assumptions, and later identify the causes of the problems. If the causes for the problems are within the controllables, then the AMC can select one of the many alternatives open to it for solving the problem. When the source of problem is outside the AMC, then it would have to exert itself to surmount it. For instance, if the competitors are the cause of the problem, then the AMC would have to evolve a careful strategy to handle the situation. An oil growers' cooperative when faced with price competition from private launched a campaign to convey the message that the cooperatives sold high quality and unadulterated goods at reasonable price. If environmental factors are responsible for the problem, then it would have to find ways to adjust with environment. The utility of market research lies in the fact that it would enable the institution to locate the 'problem shooter'. Quite often the anticipation of source of problem may turn out to be far from reality.

### **Marketing Management Information Systems (MKIS)**

The precondition for successful functioning of a cooperative marketing society is a well formulated market information system. In most agricultural product markets, prices fluctuate frequently for a variety of reasons. The institution would have to keep continuous track of these fluctuations. Sometimes, arrivals in one market may affect price in another. So it is not enough to keep track of information in one centre. For a better and fuller understanding it may be necessary to have market news from important 'price-leader markets', Compiling this information in time is critical for the success of AMCs. The normal channels of communication generate information with a time lag and, if a cooperative opts to wait, it may miss opportunities. This implies that a marketing society, while planning the MKIS should also identify and specify sources of data and the agency that would provide data.

A state marketing cooperative in an Indian state was directed to buy a lentil (gramdal) to hold the price line. Since it was pushed into business at a time when the market forces were unfavourable, the society ran into severe loss. It knew that in carrying out a relief operation it could not make profits. At the end of the year, it appointed a consultant to evaluate critically its performance and recommend a set-up in the organization to handle relief operations efficiently and advise the cooperative a suitable strategy to buy and sell gram dal on a permanent basis. The consultants stressed that a good MKIS department should be created.

Market research is not a substitute for MKIS. A MKIS is an important and readily available tool with management for decision making. It is "an interacting, continuing, future oriented structure of people, equipment and procedures designed to generate and process information flow in order to aid managerial decision making in a cooperative's marketing problem.\*\*"

### **Promotion**

Production is only a means to an end. After organizing production, an AMC should ensure that the product reaches the consumer segment for which it is meant. This task is performed by promotion. Promotion in its broadest sense means "to move forward".\*\* It is one of the four key elements in overall marketing strategy. Promotion communicates the availability of a product flow through the channel in the prescribed price to the target consumer segment. One text book argues that the market mix, in reality, is a communications mix in which all activities interact sometimes in a mutually reinforcing way, sometimes in conflict with one another—to form an image that can be favourable or unfavourable.\*\*\*

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\*William J Stanton ; *Fundamentals of Marketing*, (New York : Mc Graw Hill, 19); 1978, page 40.

\*\**Promotion* is derived from the Latin word *promovere* 'pro meaning "forward" and *movere* meaning "to move".

\*\*\*Wayne De Lozier, *The Marketing Communications Process*, (New York ; Mc Graw Hill, 19, page 167.

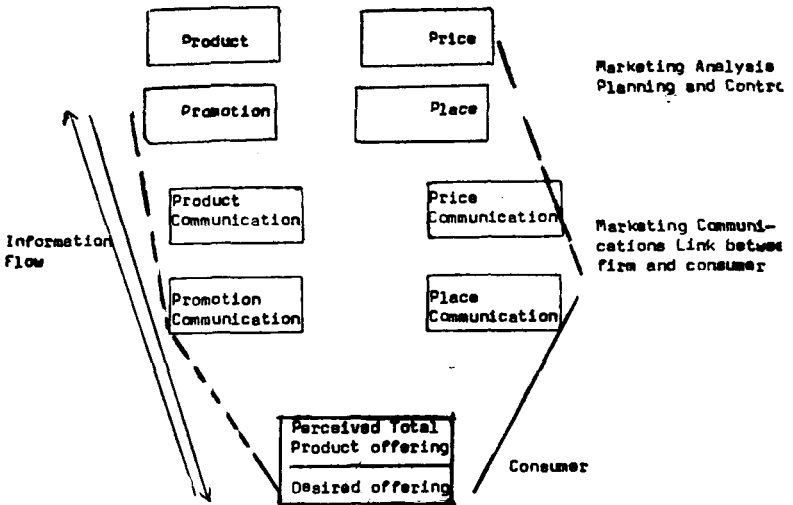


Figure 1 : The Relationship between Marketing and Marketing Communication

From Figure 1 it can be seen that marketing strategy is implemented through communication. *Marketing effectiveness* depends significantly on *Communication effectiveness*. The market, in reality, is *energized* (or activated) *through information flows*. The way a *buyer perceives* the market offering of the seller is influenced by the *amount* and *kind of information* he has about the offering and his *reaction* to that information.\* This sharply brings out (a) the critical significance of communication, (b) the objective of communication, (c) importance of what goes into communication in terms of quantity and quality, and (d) buyers reaction to communication.

\* Harper W Boyd, Jr. and Sidney J. Levy, *Promotion : A Behavioral View*, (Englewood Cliffs, Prentice Hall, 1967), page 20.

In any communication there is a sender, a message and a receiver. The communication process involves more steps. The source that originates the communication gets the message translated into a language or medium of expression suitable for transmission. This stage is called encoding. The message is carried by different

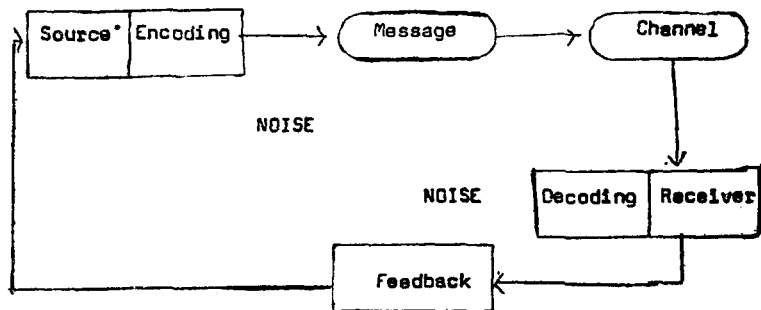


Figure 2 : Model of Communication Process

channels towards the receiver. At the receiving end the message gets decoded. Feedback is a process of constant control to measure the effectiveness of communication. Noise is extraneous to the process and interferes with communication. A good communication is one where the message reaches the segment to which it is directed resulting in desired action.

There could be several channels of communication all of them are directed towards the target segment directly or through middlemen.

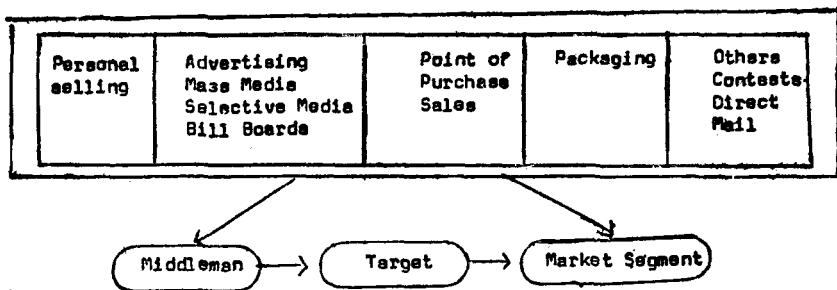


Figure 3 : Marketing Communication Media

In the case of personal selling, sales forces tries to pair right products with right persons. Advertising is mass communication. There are several options open to an AMC in selecting the media. One could opt for the print media, the audiovisual media (television) or the oral media (radio), folk art forms and the traditional media. Unlike in the case of personal selling, where messages are matched with the receivers by the sales staff, in the case of the mass media, communication is impersonal. By developing a number of feed mechanisms, the mass media could be made effective. Point-of-purchase sales silently persuades consumers to buy at the point where goods are bought. Packaging, in addition to protecting and preserving the quality of content, is an important source for promoting sales. An attractive package would draw the attention of buyers. Other sales promotion techniques are mail orders, gift coupons, competitions, etc.

An AMC should realise that any promotional efforts would involve expenditure for the organization and so a careful study should be undertaken before deciding the promoting mix. The marketing communication effectiveness for different agricultural goods is shown in Table 3. In the case of the first sub-category, branding has not become common. A grape growers' cooperative took initiative to package, brand, and sell grapes. The effort paid very well. A taluka marketing society in Gujarat branded its wheat and advertised as "machine-cleaned wheat available". The market response was good. Many housewives found that machine-cleaned wheat saved labour expenses. Since an AMC markets the produce of several producers, it may find it difficult to standardize quality. Yet another problem is the possibility of competitor imitating brand names and adulterating their products. This is possible because in these goods packaging need not be sophisticated.



**Table 3**  
**Marketing Communication Effectiveness for Agricultural Commodities**

Promotional Effort	Food			Non-food
	Cereals, Pulses, Fruits, Vegetables	Convenience Food	Liquor Tobacco Tea Coffee	Industrial Raw Material
Personal Selling	Important	Important	Unimportant	Most Important
<b>Advertising</b>				
Print Media	Not tapped	Important	Important	—
Television	Neg.	Important	Important	—
Radio	Neg.	Important	Important	—
Special Promotion (Campaign)	Neg.	Most needed for introduction	Most needed for introduction	—
Branding and Promoting Packaging	Potential untapped	Important	Important	—
Other Sales Efforts	Not tried	Less Important	Important	—

In the case of convenience food, liquor and tobacco, consumers being brand-conscious, heavy communication is needed. In 1972 advertising expenditure as percentage of sales was the highest for tobacco in the USA. A very popular beedi cooperative in Kerala found that the mass media alone were not enough to persuade consumers to try its products. It offered a match box gratis with every packet of beedi and this opened the market. A producers' cooperative tea federation in South India found that the price difference between wholesale and retail tea was high and decided to enter packaged tea business. Within a short time it found that it was trying to create a clientele out of the two giant manufacturers in India. Soon it realized that it would not be possible for them to persuade the retail outlets to sell its goods or spend enough money on communication to create the clientele.

Any AMC, before launching sales promotion, should carefully prepare the budget for communication, evaluate the likely results, and then launch action.

In the case of agricultural industrial raw materials, communication would be minimal. Personal selling is most popular. Most industries send their sales staff to personally verify the quality and relate it with price before buying. Mail order communication could be useful.

#### Summary :

Most of the AMCs are engaged in the business of supplying agricultural inputs and, paradoxically, this activity is considered as marketing. Though involvement in the inputs business is fine, strictly speaking, the handling of outputs happens to be a much more invigourating marketing task. This task, though difficult and full of challenges, offers opportunities to AMCs to help increase the income of farmers. In this context, it might be worthwhile for the AMCs to consider their role not only as the providers of inputs but, much more importantly, as the *producing organizations*, in as much as they market the products of members, while actual production takes place, or course, on a decentralized basis.

As a marketing organization, an AMC should endeavour to know the consumer's needs and match the same with the product range available. As part of this endeavour, a marketing oriented AMC would work out strategies as to the type of products to sell at what price and where and with what kind of promotional efforts. This paper provides a conceptual framework for product identification, research and promotion in an AMC. Each of these aspects calls for clear thinking and identification of district marketing strategies.

For example, decision with regard to what to produce calls for knowledge about the product profile, with details about the preference of the consumer, his purchase motives; seller's efforts; price elasticity and product complexity. Gaining this kind of knowledge is not an easy process but the AMC should spend time and money

on gaining such insight. With this knowledge, the AMC should identify product(s) needed. Moreover, for developing the product of consumer's preference, it should evolve a suitable product strategy. It might even be necessary for the AMC to take up technical research to produce the kind of products needed by consumers. This involves decisions as to whether the AMC should go in for processing of the produce or push the product processing to the consumer. Market research could be gainfully utilized to gain insights about consumer preference. Thus, there is a need to dovetail the product profile with the knowledge about the consumer as also the technical research carried on by the AMC. These are all part and parcel of the product strategy. Yet another important component of product strategy happens to be the process for preserving the production as usable a form as feasible. It is also imperative that information on different aspect of the market be available for formulating strategies. Thus information about consumers, products, technical problems should all be built into an effective marketing information system, which is *sine qua non* for the success of any marketing organization.

Once the product is ready, the AMC should ensure that it reaches the relevant consumer segment, through proper promotional strategies. Communication is a complex process and unless it is organised properly, it may not prove effective. In media choice, the AMC should exercise caution and a lot of deliberation, since these choices entail a lot of expenditure. For deciding the media-mix for different product groups, a matrix is provided.

The broad conceptual framework, given above, in respect of product identification, product research and communication-mix, would be useful to the marketing manager and the general manager of an AMC. Eventually the usefulness of the conceptual framework would very much depend on the efficacy with which an AMC builds up the marketing information system based on validated data.

# Operations of a Primary Marketing Society

M. KASAOKA\*

**N**EEDEDLESS to say that agricultural cooperative is the organization formulated by small farmers aiming at securing the maximum profit by making use of collective and organized power of the small producers to the possible extent.

Among the functions carried out by a primary cooperative, marketing activity would be the final process because only through that can it achieve the target of benefiting the member-farmers by assuring them a profitable price.

In order that the prices of farm products can be maintained at a reasonable level in the market, it is necessary to improve the quality on the basis of planned farming and to deploy high level marketing activity.

For this purpose, an agricultural cooperative provides member farmers with necessary services such as farm guidance, supply of agricultural inputs, processing and marketing of agricultural produces and finances etc. These services should be organized not independently but linked with one another. Especially with a view to realizing the best return, planned marketing may be the most important point. In order to bring about planned marketing, planned production or planned farm management should be an essential condition. Now it has become indispensable to link production with cooperative marketing, particularly to cope up with over-supply of farm produce and, if necessary, cooperatives take steps to adjust the production to changing demands. But how can we realize the linking of production and marketing. In other words, how to operate the marketing business in an integrated way with other business. This is the subject which I have to deal with here.

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As mentioned earlier, there are two purposes in strengthening the integration. One is to adjust as well as expand the marketing operation. The other is to improve production and its marketing according to consumer preferences beyond the simple function of selling what is produced by farmers. In most of the countries of this region, agricultural technical guidance given by the Government extension officers have aimed at increasing farm production and unfortunately had little concern with farmers' interests. That includes:

- (i) How can they get timely and adequately credit.
- (ii) Cooperatives should strengthen marketing activity in favour of member-farmers by linking credit with marketing.
- (iii) Cooperatives should provide storage facilities to their members.

Such guidance as is given by the Government extension officers, of course, has its own significance. But more attention should be paid to farming management. Now our target becomes clear—the agricultural cooperative should play an important role in carrying out its own farm guidance activity so that it can integrate production and cooperative marketing, resulting in the best return to the farmers.

### **How to work out "Production Plan"**

Business programme of agricultural cooperatives should be a plan approved by a majority of member-farmers in the general meeting. Usually it is a yearly programme which stipulates the policy and contents of the business as a whole. On the other, a management plan is worked out in more detail for implementation based on the business plan. Therefore, production plan and marketing plan should be carried out as a part of management plan. The most important factor in carrying out cooperative marketing is that member-farmers work out their own plan of farming management as well as utilization plan of their cooperative so that it can

take the necessary steps in advance to meet the requirements of members.

### **(i) HOW TO PROMOTE MEMBER FARMERS IN WORKING OUT THE MANAGEMENT PLAN OR PRODUCTION PLAN**

The management plan of each farmer plays a fundamental role in improving farming management and living standards as well. Further, it can promote the cooperative business involving the majority of member-farmers. Therefore, in drafting the management plan, not only member-farmers but also the cooperative itself should predict the moves in demand-and-supply situation, prices, and trends in the market and make use of the information to the maximum extent in leading farmers.

In drafting, the cooperative also should make arrangements for members to discuss their different ideas in the meeting so that their drafting work will progress. At such meeting, farmers should be divided into several sub-groups so that they can discuss the matter freely and be given detailed information. Because, except for the excellent farmers, they seem to find it rather difficult to fully understand the actual state of their management, to work out their own management plan and to link the plans with various projects prepared by the cooperative. It is, therefore, necessary for the cooperative to help the members to work out their plan through such small sub-groups.

### **(ii) CONTENTS OF FARM MANAGEMENT PLAN**

It would be natural for each farmer to put stress on different aspects in preparing their plan due to differences in their farming operations, scale and capacity. As a result, the contents of the plan may not always be the same. Therefore, in order to formulate the business plan of the cooperative, it is necessary to sum up common features.

Guidance should be given in such a way that the following three points are included in their blueprint :

- (a) planning of production and marketing of farm products, including dairy products and livestock.
- (b) planning of purchasing both production material as well as article of daily consumption.
- (c) estimate of income and expenses.

The three points mentioned above are intimately connected with one another.

### (iii) HOW TO ASSEMBLE "FARM MANAGMENT PLAN".

The cooperative, of course, cannot adopt all the figures mentioned in these blueprints. It may be difficult for the cooperative to take all the responsible actions to meet the wishes of farmers without considering present status and capacity.

Figures collected from member farmers should be used as fundamantal data, but if the data seem to be too large or too small, they must be revised in consultation with member—farmers concerned.

Needless to say, such discussions between the cooperative and its members are of great importance. Confirmation of the target figures of the members is useful for increasing their sense of participation in the cooperative movement as they will feel greater responsibility for the cooperative business. Thus, the cooperative comes into the next stage where it works out its own business plan on the basis of the figures confirmed in the discussion with members.

### **Marketing Plan of Agricultural Cooperative**

The marketing business plan must be in line with the basic business policy of the cooperative. Therefore, the marketing plan is of no significance unless it is formulated according to the basic business policy.

The marketing plan of the cooperative should be composed of three parts :

#### (i) Business Volume Plan

- (ii) Income and expense estimate
- (iii) Fund Plan

## **(I) BUSINESS VOLUME PLAN**

A business volume plan should be drafted by the Chief of the Marketing Section in accordance with the management standards.

Primary factors of the plan are volume level, commission income and utilization of upper organization classified by items.

The following things can be pointed out as important aspects in working out the business volume plan :

- (a) Since business volume cannot be fixed regardless of funds and revenue and expense, the plan should be drafted in line with the management standard of cooperative, linking it with the other two.
- (b) The primary cooperative, if necessary, must have discussion with the secondary federation in drafting its business plan.

## **(II) REVENUE AND EXPENSE PLAN**

The objective of the revenue and expense plan is to clarify the details of the revenues and expense of the marketing business of cooperative, find out and correct weak points in the business management and help make full use of the comprehensive cooperative management system. If the cooperative incurs a loss, the following points should be examined :

- (a) Is the business volume too small and is the utilization of cooperative by the members satisfactory ?
- (b) Are commission rates appropriate ?
- (c) Are operation costs too large compared with volume handled and commission income ?
- (d) How is labour efficiency ?



### (III) FUND PLAN

Together with the business volume plan and the revenue and expense plan, the marketing business fund plan should be a part of the general financial plan. In the marketing business it is especially necessary to work out a fund plan because a large amount of funds is required and a strict control over credit and debt is essential. During the tight money period, the money control would be a key point to implement a business plan.

Commercial dealers in most countries of the region possess the business funds and work ahead of the cooperatives in the collection of farm produces, usually by making partial payment in advance of collection or at the time of shipment. Therefore, if the cooperatives want to compete with commercial dealers, it is quite necessary for them to extend loans to farmers at the time of the harvest or make advance payments when agricultural produces are carried to the warehouse or shipped.

Before drafting the plan, following preparation would be necessary :

- (a) Make a numerical tabulation of the present and past financial records of the cooperative. Especially, in case of consignment system, not buy up system, the consigner in principle receives the sales proceeds after it is collected and adjusted by the cooperative and if the consigner needs some money in advance, the cooperative should make a tentative payment. Without such measure, member farmers may not ship their products to the cooperative but be compelled to sell the products to the merchants to get quick cash income. If the upper federation is in a position to make tentative payment, the primary society may not need to make such a fund. Anyhow, it is quite important for the primary society to make itself ready for such payment and to grasp each member's financial situation.
- (b) Prepare the details of the actual results of the previous year, classified by items.
- (c) Examine and arrange each member's sales plan.

#### (IV) HOW TO EXAMINE THE RESULTS

- (a) The figures in each plan are not merely wishful ones but should be a real target that can be achieved by the cooperative. The main reason why the plans are rather neglected and achievement not satisfactory is due to a lack of adequate studies on the state of implementing plans. Therefore, emphasis should be made on making studies continuously and regularly during the plan period because the marketing plan is the starting point of a general management plan. Needless to say that figures in a plan are estimates for the future and actual results do not always match the plan. So, personnel who are in charge of marketing business keep watching the progress.
- (b) As I have already mentioned, the most important point in the marketing business of a cooperative is to collect as much quantity of produces as possible from its members in accordance with the plan.

For this purpose, cooperatives not only rationalize the collection system but also link the marketing with production plan of each member farmers and set up an adequate cooperation system in the field of production technology, supply of agricultural inputs and credit etc.

The following things can be pointed out as essentials for examining business results :

- (i) See the state of handling in the light of the plan and if collection of produces is delayed, find out whether it is caused by seasonal factors or by a poor business system.
- (ii) See if good collaboration is maintained among those engaged in guidance activities on production technique, propagation of improved varieties, standard fertilization and consolidating organizations for joint pest and insect control.
- (iii) Examine whether marketing is conducted in such a way that supply of credit as well as agricultural inputs is done so smoothly that it can be fed back in the form of consigned goods.

# National Integrated Planning for Cooperative Exports

DENNIS HOLLOS\*

THE main purpose of this paper is to examine the possibilities for establishing a framework for developing co-operative exports. It should be noted, however, that such framework would only be possible to be considered within any framework already established for developing any nation as a whole. As all nations are different with regard to their levels of development, objectives, needs and priorities, and similarly the cooperative movements and organizations within such nations, there can be no overall formula incorporating specific details which would be collectively appropriate to meet the requirements of any one particular country or any particular cooperative organization without varying degrees of adaptation or modification. This does not mean, however, that it would be impossible to establish such a framework bearing such limitations in mind because experience and history show that all developing countries have formulated national developing strategies which in addition to including such matters as desirable form of social, political and cultural development appear to share some common ground in some of the key areas such as :—

- (i) Rural Development
- (ii) Urban Planning
- (iii) Economic Policies, and
- (vi) Administrative Policies

It is for the national cooperative movements themselves to ensure that they are adequately included in any scheme formulated for such development areas and even further that their voices are heard in making such formulations.

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## RURAL DEVELOPMENT

In general, the main objective of the development strategy for rural areas appears to be that people should be given the opportunity to improve their well-being through their own efforts in their own area. This emphasis on self-help should surely mean an important role for cooperatives and cooperators to play. In many countries the main difficulty to overcome in order to improve productivity and the quality of life in villages will be that of land use. In some areas there is already pressure of population on land resources and in some areas problems of identifying land ownership. Even though it is technically possible to increase greatly land capacity to produce food and cash crops, this will take a long time if land problems are not overcome. Two other key elements in rural development are the possibility to improve skills through rural extension and education, and access to markets by improving transport facilities. Access to domestic markets is difficult enough, access to exports market is much more formidable.

Solutions to such problems will require different approaches for different areas. A common ground, however, will be the close cooperation required between central and provincial governments especially where national financial resources are required.

## LAND POLICY

Are governments prepared to promote growth of rural production based on community forms of land ownership including cooperative forms of land ownership? Alternatively, will individual land-owners work together by forming cooperatives and adhere to collective cooperative decisions ?

## EXTENSION SERVICES

Cooperatives must ensure that appropriate extension services are provided not only by the cooperative organizations themselves but by government to provide information and skills to enable cooperators especially those in rural areas to improve their economic well-being and environment, such extension services should

include specialist expertise to enable export techniques to be fully understood and developed to enable suitable cooperatives to prepare for and eventually undertake exporting as a matter of course.

## CASH CROPS AND SUBSISTENCE

In most developing countries, long-term plans have been formulated already to develop appropriate farming systems. Such plans have emphasized diversity of production and improvement of land productive capacity, especially for subsistence production.

However, in many areas export crops offer the best short-term prospects for improving cash earnings provided sufficient safeguards are built into systems to ensure that the primary producers are awarded a fair share of such improved earnings.

A number of possible dangers must be considered, however, such as over-reliance on a single export crop for rural development, especially in those areas where there is strong population pressure on available land resources.

Due to heavy price fluctuations and in land-short areas there is always the possibility of using too much land for cash crop production in periods of high prices. In addition soil fertility may be depleted and the same land may not be able to provide adequate subsistence in periods of low prices.

There is also a danger that much income from exports may be directed to imported foods with the consequent built up of reliance on imports making it extremely difficult to switch rapidly back to food production when export prices fall and import prices rise.

Policy, therefore, should be to give high priority to developing farming systems which sustain subsistence production per head. Export production should be continually expanded but there should not be reliance on producing a single crop within a given region. Where not available, stabilization funds should be created to reduce price fluctuation for individual crops.

Import substitution policies should be adopted especially where domestic food production can be economically viable in the long run.

## **APPROPRIATE TECHNOLOGY**

The aim of the development effort should be achieved by introducing technologies that are 'appropriate' to the needs of particular communities and cooperatives. In some instances this could mean the introduction of sophisticated, capital-intensive techniques, but in the majority of cases simple technology would suffice and where possible labour intensive rather than capital intensive.

In many countries, a technology could be regarded as appropriate if it :—

- (i) was adaptable to local skills
- (ii) fitted in with local customs
- (iii) used primarily local materials, and
- (vi) relied upon local control and local initiative.

## **Cooperative Business and Industry**

Cooperative business and industries will require extension services to support development, especially those of small-scale in rural areas or supporting rural industry. The largest proportion of the most viable business opportunities will arise in towns because of the advantages of transport, materials supply and marketing facilities which occur in urban area, but governments should be urged through their respective advisory service to promote and support group enterprises such as Cooperative wherever viability is disclosed.

## **COOPERATIVE FINANCE**

Provision of credit to cooperative agricultural producers is essential to any substantial increase in agricultural production and Co-operators' incomes, but credit facilities need to be closely integrated with agricultural extension services.

In some countries, the inability to use land as collateral for loans has restricted the use of credit for agriculture.

Without security of tenure, cooperative villagers cannot invest very much time and money on agricultural projects. Arrangements need to be formulated for small to medium sized agricultural projects to be granted loans to cover the full monetary costs provided a significant proportion of the inputs are provided by the people in the form of labour. This means that for such projects there should be no 'capital gap'. For large projects, Development Fund must be made available to meet the gap in the case of groups such as cooperatives.

Care must be taken that loans are not mainly given for commercial projects but agricultural activities also needs to be adequately funded especially when there is a reasonable prospect that such credit would be effectively utilized. There are dangers in the over-use of credit when loans are sometimes seen as free handouts and not used to increase incomes. If credit is too readily available it may also encourage the use of inappropriate capital intensive technologies.

Whilst small loans may be effectively managed through local Co-operative Savings and Loans Societies, management of such Societies may in some instances be a problem. Even with improved management, such societies may not be sufficiently attractive vehicles to mobilize all surplus cash in local areas. In some countries, for instance, where good prices are currently being enjoyed for some commodities surplus funds seem to be going largely into consumption rather than savings.

There can be many disruptive elements which may adversely affect trade. One of these is often changes in government regulations where one minute you have import restrictions and then trade liberalization. Such practices usually create for more rapid changes in demand than normally experienced by market forces and small enterprises are ill-equipped to cope with such changes.

## COORDINATION

Often there does not appear to be any coordination between the authorities in charge of import regulations and those responsible for small enterprise or co-operative development, and this is perhaps not surprising given the complexity of modern government. It should, however, be possible for the various institutions involved in small enterprise promotion to coordinate their activities more effectively. Management of small enterprises often fail to make use of all the sources of funds which are available to them, but there is the other extreme possibility of those who successfully exploit the lack of coordination described by obtaining loans from government sources, from commercial banks and by obtaining substantial deposits from their customers or members. Such success in obtaining new capital may lead them to make over-optimistic investments which may lead to more serious problems especially if coupled say with a decision to diversify into new products which is likely to strain managerial and financial resources.

This illustrates the need for an integrated or coordinated approach by government and other agencies concerned with financing and advising such business. If one institution and one individual within it can be made responsible for coordinating the package of assistance offered to companies or cooperatives, and for ensuring that it is correctly used once it has been provided, entrepreneurs and their countries would benefit from sound expansion of necessary and basically well conceived business.

Many entrepreneurs believe that the main thing which is preventing their success is shortage of capital. This may in some cases be true but this belief also often leads those who have access to capital to believe that nothing else is required for business success.

It is very easy to start any business so long as the necessary funds are available, but to run it successfully requires a full range of management skills, this is often overlooked with disastrous effects.



Where schemes for granting credit to businesses which genuinely need assistance from the government or other financial institutions are not yet readily available, three possible methods of implementing such schemes come to mind (there are others).

- (i) Establish an institution to specialize in business financing which would also be accessible to cooperative if it was not a cooperative institution.

It should be noted, however, that the volume of lending may not be sufficient to sustain the number of branches necessary to reach every enterprise. Such an institution should be staffed by personnel specifically trained in the area of lending to such businesses. The institution should be allowed to accept deposits from the public and operate like any other commercial bank.

- (ii) Establish a cooperative business division within an industrial development bank. Such a scheme would require the blessing and support of top management, and the cooperative division thus established must be free from any institutional rules and regulations which would restrict its ability to function effectively. The division would have to be sufficiently independent to form its own policies on such matters as the maximum amount of loans, collateral requirements, amortization schedules etc.
- (iii) Establish a cooperative development fund within the central bank order agency for on-lending through commercial banks.

The effectiveness of such an approach would depend primarily upon the extent to which the commercial banking system of a given country was willing and able to function effectively within the content of an overall cooperative enterprise financing programme. Commercial banks have relatively large and competent staff with extensive branch networks offering widespread geographic coverage which would reduce administrative costs involved in such lending operations.

## SUBSIDIZED CREDIT

It is generally accepted that credit provided by government sponsored business financial assistance schemes should be subsidised. Most governments of developed countries have adopted credit subsidy policies.

Subsidized credit may give rise to a number of problems :—

- (i) Credit may appear to be cheap, so many are eager to take advantage of the service through the appropriate government agency. Eventually credits become grants, and revolving funds for loans cease to revolve.
- (ii) Non-viable projects may be financed and good money is poured into bad risks ;
- (iii) Corruption can easily follow from excess demand and inefficiency in administration of the scheme ;
- (iii) There may be no control over the use of the loans and borrowers may misuse the money and spend it on unwise investments such as capital-intensive equipment or buildings or sometimes the purchase of cars or other personal goods.

The best kind of such schemes and the most successful are those which offer a package deal in that they provide consultancy and advisory services together with the loan and loans are granted only after thorough investigation of the project and careful screening of the organization and its management.

It should always be insisted upon that proper business records be kept so that the credit agency can assess progress and perhaps more important that the entrepreneurs themselves can control and manage the businesses more effectively.

## COOPERATION

We are all well aware of most of the considerations which make individuals into cooperators, so it is not proposed to discuss these beyond the reminder that the best policy has been found to

be where small businessmen have not been forced to form a cooperative, and where it has arisen out of the needs of small entrepreneurs and who have taken the initiative to form such an organization. No cooperative can be successful if it does not arise from the initiative of members. The concept of cooperation is extremely sound in principle, but in actual practice it is extremely difficult to implement properly. Cooperative management, like democracy can be very cumbersome.

All that has been stated so far is by way of background to the immediate task of establishing a framework for developing cooperative exports suitable for individual countries.

Such a framework must inevitably start with organization and considerations of land, labour and capital giving rise to production (supply), additional processing for added value where appropriate, domestic and export production, domestic and export distribution channels, markets, consumer needs, competition, etc. and perhaps most important the TARGET SURPLUS.

But all this will not happen by itself and is a very difficult business fraught with problems every step of the way to that surplus.

### **First Step — Initiative**

The first step is for someone or some cooperative organization to take the initiative. This someone could be the chief official of a cooperative society with the blessing of his board of directors, it could be a Minister for cooperatives, or a minister of commerce. It could be a national cooperative apex organization. It could be initiation at any level for an individual productive cooperative society in the field of agriculture or otherwise, or by a federal society acting on behalf of a number of societies. The point to be made is that the objectives of the exercise will have to be clearly defined at the outset such as whether the objective is to increase already existing export trade, start from scratch, diversify outlets etc. In this connection it should be noted that experience shows

that enterprises established to create employment as their main objective, whilst perhaps desirable, unfortunately have not often been crowned with commercial success.

In defining such objectives certain questions will require answering such as :—

What have we got to sell ?

Where shall we sell it ?

When shall we sell it ?

How shall we sell it ?

Will it be profitable and how can we maximise the surplus ?

If maximizing the surplus can best be achieved domestically, then forget about exporting. But before you do forget ensure that your reasoning is correct and that no additional surplus can accrue from overseas.

The identity of the taker of this initiative is not of itself of prime importance at this stage, except to say that the initiator will differ from country to country and from national cooperative movement to national cooperative movement. The initiator may be an individual or perhaps a committee, but there must be an initiator of one type or another because such projects do not evolve by themselves. The initiator will have to be sufficiently persuasive to be able to define the benefits to be gained from planning for and undertaking Cooperative exports as such support will be required from many quarters including nearly every government ministry such as Education, Industry, Trade, Works, Transport and Finance as it is unlikely that many governments have set up special agencies to supply all the services likely to be required. Many of the skills and facilities required will already exist in one government department or another but the problem is to ensure that they are available to cooperatives and that they are effectively coordinated. Even within cooperative ministries or departments, it is unlikely that all the requirements will be found. Whether all the requirements can be met will depend more on the awareness of the importance of cooperatives and common sense and cooperation at all levels,

especially in the field rather than a formal commission or other institution at the centre.

## INITIATIVE AND STEPS TO BE TAKEN

1. Identify initiator of export scheme  
(Individual, type of society, committee, minister, federation, etc.)
2. Define objectives
3. Product area selection — may be tied in with initiator.
4. Supply and capacity study (including seasonal variations)
5. Define research project — clear terms of reference.  
What is the purpose of the study and who will use it ?  
Is the study to cover short-term prospects or provide long-term projections ?
6. Research project
  - (i) Desk Research
    - (a) Prepare bibliography
    - (b) Consult available studies, reports
    - (c) Study export and import statistics
    - (d) Study Tariffs and Import Regimes
    - (e) Select possible markets
    - (f) Prepare table, data, grids, graphs, etc.
    - (g) Study demand in possible markets and seasonal variations
    - (h) Select target markets in more detail
    - (i) Study competitive products
    - (j) Ascertain target market quality requirements
    - (k) Finalise supply studies, including stocking and storage facilities and requirements
    - (l) Prepare samples, designs etc.
    - (m) Determine interview sample sizes

- (n) Select interview techniques
  - (o) Prepare contact lists
  - (p) Establish statistical and other data tabulation procedures
- (ii) Field Research
- A. *Overseas*
- (a) Fill in gaps in information on target market areas
  - (b) Carry out interviews with samples with trade attaches, import houses and firms.
  - (c) Carry out interviews with departments of Customs, Health and Consumers Affairs.
  - (d) Prepare pricing data, and study competitive products and prices, product presentation on target market, trade discount structures, etc.
  - (e) Study normal contract terms for sale of product and whether long-term arrangements are feasible and means of overcoming difficulties likely to arise from contract conditions and terms

(Please refer to APPENDIX I)

B. *Local*

- (a) Ascertain requirements of Export Buying Houses by telephone, mail and interviews.
- (b) Consult expatriate community to assist in filling data gaps using similar techniques.
- (c) Visit displays in large stores for consumer exports products.
- (d) Contact commercial attaches of target markets if present in your country seeking as much useful information as possible.
- (e) Meet with appropriate trade and commodity associations, transport organizations, shipping lines, airlines

in appropriate cases, insurance companies, appropriate banks, etc.

- (iii) Tabulate all data from desk and field research (local and overseas)
  - (iv) Produce a complete market picture
7. Prepare a report of the findings on the following lines :
- (a) Introduction — a brief outline of the subject.
  - (b) Terms of Reference
  - (c) Summary of Findings and Conclusions
  - (d) Findings in detail
  - (e) Arguments supporting the conclusions
  - (f) Appendices, tables and other supporting data

Such a report could include several market profiles and a marketing plan for each target market segment and could include a series of operational forecasts of which the most important would be

- (i) A sales forecast ;
- (ii) A sales budget ;
- (iii) Production schedules ;
- (iv) Manpower budget ;
- (v) Production budget ;
- (vi) Financial budget ;
- (vii) Surplus budget

Commitment of resources of production and marketing if conditions found to be satisfactory.

It should be noted that in describing some of the more important steps to be taken, no mention has been made of any specific commodity or product. Thus the steps described may be regarded as a general check list which may require some detailed variation for specific products in such areas as additional requirements for storage, processing, deep freeze, packaging, etc. Nor is

it possible in a paper of this nature to go into any of the ramifications of the subject of marketing research in depth which would take much more time than is currently available.

In addition, no specific mention has been made of particular cooperative organizational structures best suited for export activities due to the differing circumstances experienced in the respective countries.

Any organization, whether it be cooperative or otherwise, is only as efficient and effective as the sum of the abilities of the individual human beings taking part. In the final analysis it will be the organization with the most capable and best trained people which is most likely to succeed.

Most of the governments have already taken steps to assist all types of exporters by the creation of national focal points for export promotion. These focal points go under a variety of names such as National Agency for Export Development, Export Promotion or Development Board, etc. and are available for consultation purposes. Most of them operate trade information centres where much of the data for desk research will be found. My own organization, United Nations ESCAP, Bangkok, has created within its Trade Promotion Centre a trade information service which operates a network of trade information centres through the ESCAP region in some 29 countries and through which trade information data concerning all ESCAP member-countries is available on request. To obtain such information you should first contact your own national TIS who will provide available information and if what you require is not available immediately they will be able to obtain it through the network.

It will be apparent because of the numerous agencies involved both national and international included such helpful. United Nations Organizations as FAO and ILO with their assistance programmes for cooperatives and extension services, and your own Ministries in their respective spheres of influence that unless some form of coordination can be evolved within national cooperative



movements themselves, there is a likelihood of so many crossed wires that clear export objectives may be lost sight of. Some form of coordination for export purposes must be evolved. If middlemen are to be completely eliminated as a long-term goal, then their present functions will need to be undertaken cooperatively. This may mean the recruitment of new qualified personnel or in-depth training of existing personnel to undertake the various functions. Meantime existing services may have to continue to be used until exporting cooperatives are self-reliant in these specialist service areas.

National cooperative movements, authorities, or apex organizations would be well advised to establish working groups immediately to determine their own machinery for the coordination requirement envisaged. Key officials could be appointed in each country to work to such plans formulated by the working groups. We must get away from the concept of being able to export through committee decisions. The right type of officials should be appointed in the first instance and given full authority to go ahead and achieve that surplus from exporting which has been mentioned previously. Once the Committee has determined and agreed general policy, e.g. the need to export, the wish to export and the intention to export, the details of the actual techniques to be adopted and the execution thereof should be left to the officials appointed for the purpose. Tenures of office would be judged from the results achieved.

Export planning and development should always be considered as a long-term exercise. Results will be slow to fruition, but given determination and seriousness of purpose, good results, whilst difficult to achieve are not impossible. Let today be regarded as the start of our new initiatives and determination, and I urge you to give the subject of exporting cooperatively further serious thought and take that first important step as Neil Armstrong did when he landed on the moon.

## APPENDIX

### SOME PROBLEMS IN THE OPERATION OF LONG-TERM CONTRACTS

*Extract from Study compiled by Mr. B. D. Kumar, Consultant under the E.S.C.A.P. Project for Trade Expansion and Cooperation in Asia and the Pacific.*

One of the main problems in the operation of long-term contracts is that, however carefully the parties consider possible future developments and provide for them, situations can still arise during the period of the contract, when, due to changed circumstances, continued performance of the contract as originally drawn up is impossible or would result in unbearable losses to either of the parties. In such situations, insistence on the rigid performance of the contract may be impractical and the parties may have to re-negotiate the contract or reach a settlement outside the terms of the contract.

To cite one example, in 1974, after seven months of negotiations, A.S.R. Ltd., the sugar agent for the Queensland Government, concluded a five year agreement with a group of 33 sugar refiners in Japan, represented in the Mitsui and Mitsubishi companies, for the sale of 600,000 tons of sugar a year, at a price denominated in a mixture of Australian and U.S. dollars which averaged approx £ 229 per ton. The contract was signed at a time when the London Daily Price of sugar was around £ 400 having risen from about £ 60 a year earlier, and future price outlook seemed quite uncertain. Agreeing to a fixed price had great risks for both parties but apparently the desire for a stable price outweighed the risks. As it turned out, by July 1975, the world price had dropped to £ 130. To the Japanese parties, continuation of purchases at the agreed price would have entailed heavy losses. The parties were, therefore, obliged to renegotiate the contract in October 1977, substituting in place of the fixed price a variable price based partly on the London Daily Price.

There were similar experiences in the contracts between Japan and suppliers of minerals. Most of these contracts had been signed in the 1960's, when inflation rates were very low and currencies, including the U.S. dollar, were stable. On the basis of these conditions the contracts provided for a fixed price denominated in U.S. dollars with only limited possibility of upward adjustment due to cost escalations. The contracts worked reasonably well until, in the 1970's currencies became unstable (with the U.S. dollar being devalued), inflation was accelerated, and the world economy was overtaken by high prices for petroleum products. These developments raised substantially the costs of mineral production, and only limited relief was available under the contract terms. Since it was clear that continued performance of the contract terms was becoming impossible, the Japanese buyers had to agree to increased prices, though increase fell short of expectations of <sup>the</sup> suppliers.

The above instances relate to price adjustments which became necessary as a result of unexpected changes in the economic environment. There have also been instances when parties found it difficult to perform their commitments to accept supplies at the rates specified in the long-term contracts. Many of the Japanese long-term contracts for supply of minerals stipulated fixed annual tonnages with the option to the buyer of varying it by 5 to 10 per cent subject to notice of actual requirements being given three to six months before the commencement of each contract year. Following the radical changes which took place in the world economy in the early 1970's which resulted in economic-recession in the industrialized countries the steel industry of Japan experienced difficulties in accepting the contracted tonnages. The Japanese buyers started applying pressure on the suppliers for the reduction of quantities. In the end, suppliers had to agree to a scaling down of shipments; the shortfalls being added to <sup>the</sup> quantities to be supplied in subsequent years.

As a result of such experiences there is now a tendency to avoid undue rigidity in the terms of long-term contracts as well as

to provide avenues of relief in the event of hardship. There is now a general avoidance of fixed prices and a preference for basing price on average of prevailing world market prices. As regards quantities too, discussions have been taking place for introducing greater flexibility in quantity commitments.

The provision of a specific hardship clause can certainly provide on legal basis for a party experiencing unexpected difficulties in the performance of a contract to seek and obtain relief from the other party where such clauses have been introduced there have on occasion been difficulties of interpretation. In actual practice, the presence or absence of a hardship clause is less important than the general approach of the parties to the contract. The Japanese concept of a long-term contract is that it is an arrangement of economic partnership and that it is up to both parties to make their best efforts to make the arrangement work. To the Japanese way of thinking, it is unreasonable to exercise legal rights in a situation where one of the parties is genuinely in need of relief. In actual practice, the Japanese approach to long-term contracts has come to prevail and in most situations parties make their best efforts to reach agreement without considering recourse to any legal rights they may have under the contract.

Apart from situations which require renegotiations or settlements outside the contract, there are also some instances where operation of certain types of provisions in the contract have given rise to some difficulties one of them concerns the negotiation of new prices at the end of a period stipulated in the contract. There has been a feeling that suppliers are at a disadvantage in negotiations on new prices with Japanese buyers because the Japanese buyers act in concert, and possess strong bargaining power as a group, compared with individual suppliers of products. To overcome this problem, attempts are being made to improve exchange of information between parties negotiating with Japanese groups of buyers.

Prices based on costs have also given rise to some difficulties. Where the price consists of a firm base price with a provision for

escalation for defined cost areas, Japanese buyers have felt that this encourages increases in wages since such costs can be passed on to the buyers. This apprehension has led to a demand by buyers for exclusion of such escalation provisions in future contracts.

An alternative that has been suggested is the basing of price; on cost plus reasonable profit margin. However, there are objections to this approach on the ground that :

- (a) buyers are likely to object when cost plus margin results in final prices greater than the international market price ; and
- (b) such a system would not reward efficient producers.

Some difficulties have also arisen over shipping schedules. All contracts except sugar stipulate delivery on F.O.B. basis, leaving the responsibility to the buyers for arranging ships to carry the cargoes from the named port of loading. The sellers have little control over shipments. Disputes have arisen on account of the failure or delay by Japanese or other buyers arranging for ships to carry the contracted tonnage as agreed to in the schedule of shipments. The commodity sold in some cases incurs damage if not loaded within the agreed time schedule and causes hardship to the seller. Delay in nominating ships or threatening to do so by an F.O.B. buyer is seen to be an unreasonable bargaining weapon from the seller's point of view.

Most mineral contracts provide for immunity for stoppages of work due to strikes or labour unrest, acts of God, etc. The immunity clause has been invoked whenever industrial relations in the supplier's works became tense. In one case shipments were suspended for a period of two months on account of instability of industrial relations. The buyers were compelled to make purchases from alternative sources to avoid a break in the continuous processing. The suppliers maintained that industrial strikes were outside their control. Doubts are beginning to rise among the buyers with respect fairness of the present situation which enables the sellers to claim conditional immunity for the consequence of industrial strikes and disputes.

Although difficulties of the above type have been experienced in the operation of long-term contracts, it is noteworthy that many contracts have continued to survive despite the fact that they have been subjected to external pressure during certain periods. It demonstrates that provided both parties to the contract recognize their long-term economic interest any difficulties that arise in the implementation of long-term contracts could be settled in a spirit of mutual cooperation.

# Streamlining of Cooperative Marketing Operations for Exports

G.K. SHARMA\*

**T**He purpose of this paper is to briefly review the present position of cooperative marketing of agriculture prevalent in the Asian countries and deal with some of the measures which would help in streamlining the marketing operations, particularly with regard to exports by the cooperatives.

Cooperatives in most of the Asian countries were initiated to save farmers from the clutches of the money-lenders. The initiative very often came from the colonial governments. The next stage of development with regard to cooperative activities in the region have been supply of agricultural inputs, particularly with the introduction of chemical fertilizers, this too at the initiative of the national governments. Along with it, here and there attempts were made to help farmers in the marketing of their produce through cooperatives. However, the main concern of the governments in most of the countries was increased agricultural production and it was presumed that with higher production the farmers' economic conditions would automatically improve. Only since the last few years it is increasingly being realised that increased production does not necessarily mean more income to the farmers, and the farmers also need to be assured a fair price for their produce. It is with the realization of the fact that since last two decades the importance of cooperative marketing is increasingly being realized. At present in practically all the Asian countries the marketing

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cooperatives in some form or the other are in operation with varying degrees of operations at least at the primary level.

### **Pattern of Marketing Cooperatives**

Generally speaking a three-tier structure of general purpose market cooperatives is visualized in most of the Asian countries, namely primary, secondary and apex level. However, in some countries like Sri Lanka and Hong Kong the structure is two-tiered, and no secondary tier exists. In some of the countries like India, the Philippines and People's Republic of China in between the farmer members and primary marketing cooperatives another formal or informal tier prevails. These are the small agricultural units (SAU) in China, service cooperatives in India and Samahang Nasyon in the Philippines. In some parts of India, an additional tier exists at the regional level. The general purpose marketing cooperatives are generally multipurpose. In some countries like the Philippines, Nepal and Indonesia, the national level marketing cooperatives are reported to be under the process of organization. In addition, most of the countries have specialized marketing cooperatives also either for processing like sugarcane, oilseed, etc. and/or for specialized marketing like fruits and vegetables, live-stocks, cattle etc.

While the number of the marketing cooperative generally have decreased in the last few years except in Pakistan and Nepal their turnover and operations have increased. The following statement shows the number, working capital and turnover of primary level marketing cooperatives in some of the countries.



## MULTI-PURPOSE PRODUCERS COOPERATIVES

Country	Year	Number	Total Working Capital (US\$1,000)	Total Marketing Turnover (US\$1,000)
Republic of China	1976	273	56,237	2,579
	1971	328	26,775	1,525
Hong Kong	1976	—	—	—
	1971	—	—	—
India Village-level credit	1975/76	134,838	2,214,690	640,020
„ „	1970/71	160,780	1,527,884	311,300
General-purpose marketing	1975/76	2,606	266,248	1,020,803
„ „	1970/71	2,675	212,346	602,549
Republic of Korea	1976	1,535	756,876	468,678
	1966	17,281	13,015	30,357
Nepal	1976	1,142	7,155	10,866
	1965	1,123	218	—
Pakistan	1978	2,196	1,741	—
	1968	158	976	—
Sri Lanka	1974	356	858,626	83,144
	1968	5,074	341,039	—
Thailand	1976	588	141,499	18,376
	1971	733	38,623	—

## SPECIALISED PRODUCERS ASSOCIATION

Country	Year	Number	Total Working Capital (US\$1,000)	Total Marketing Turnover (US\$1,000)
Republic of China	1976	1	33,053	26,342
	1971	1	30,850	21,625
Hong Kong	1976	31	381	12,092
	1971	31	—	7,299
India	1975/76	568	40,293	85,596
	1970/71	547	25,301	68,751
Republic of Korea	1976	141	25,674	147,332
	1971	144	9,623	95,144
Nepal	1976	—	—	—
	1965	—	—	—
Pakistan*	1978	568	327	1,397**
	1968	766	3,443	832**
Sri Lanka	1974	171	—	5,685***
	1968	289	—	731
Thailand	1976	25	2,443	5,155
	1971	151	—	1,585

\* Paper presented to the APO Symposium on producers associations, Tokyo, October.

### Marketing Operations

By and large in most of the Asian countries the marketing operations of the general purpose marketing cooperatives are centred on foodgrains while the main commodities being handled by specialized cooperatives vary from country to country. For example, in the Republic of Korea 68% of the total value of farm products marketed by the primary level multipurpose cooperatives in 1975-76 is represented by foodgrains, 80% of which is rice. In Sri Lanka, 95% of the paddy procurement is done by cooperatives.

In India, wheat, rice and other foodgrains account for the major marketing operations of the primary and secondary marketing cooperatives. In Nepal, paddy procurement is the major marketing operation of cooperatives. Two main factors for foodgrains occupying the major position is its non-perishable nature and the low risk involved in handling them, particularly under price support operations.

However, if we review the place of cooperative marketing in the overall marketing operations of the countries we find that while in some countries it has increased, in others it has decreased in the last few years. For example, in the Republic of Korea the share of cooperatives in the marketing of agricultural produce has increased from 10% in 1970 to 23% in 1976. In rice, the cooperatives' share in 1970 was 30%, private trade is 29% and government's 9% of production (32% was farm retention). In the case of apples, it was more or less half and half. In livestock, the private trade handled 80% and cooperatives only 20%. In India, the share of cooperatives in foodgrains came down from 60% in 1973-74 to 40% in 1976-77. However, in case of processing of sugarcane, the cooperatives' share increased from 15% in 1960-61 to 48% in 1976-77. In the Republic of China, the cooperatives shared 83% of banana marketing, 67% of asparagus and 46% of mushroom in 1973. In Sri Lanka, 95% of the retail trade of sugar, rice and flour is with the cooperatives. In Nepal, the cooperatives handled 10% of oilseeds, 8% of paddy and 5% of wheat in 1976. In the other countries the share was notional except in Japan.

### **Marketing cost of cooperatives and private trade**

The study of producer's associations undertaken by APO of some of the Asian countries indicated that in one group of countries namely the Republic of Korea, the Republic of China and India, the marketing cost is generally lower for the cooperatives than for the private trade. However, in case of Nepal, Sri Lanka, Thailand and Hong Kong the reverse is true. With regard to commissions in many countries, particularly China, Korea and India

the cooperatives have been able to reduce their charges in many commodities compared to the private trade.

## STRUCTURAL PROBLEMS

In no country could there be one single cooperative agency to handle exports on behalf of farmers. By and large a three-tier cooperative structure exists between the producers and the cooperative exporting agency. This raises a number of practical problems with regard to cost economics as also sharing of responsibilities with regard to quality, storage, transportation, finances, etc. Lack of well-defined responsibilities and clear-cut understanding could create many serious unforeseen handicaps in fulfilling the export commitments and multiplicity of tiers could reduce competitiveness in the field. While no hard and fast guidelines can be provided with regard to structure and tiers and this will depend on the physical, geographical and social conditions a minimum of tiers in actual handling of goods is a practical necessity in a competitive trade. However, even within the multiplicity of tiers certain operations and methods have to be evolved to reduce the bottlenecks in actual operations.

### Need for inter-cooperative export trade

Cooperation among the cooperatives is one of the basic principles accepted by the International Cooperative Alliance Commission on Cooperative Principles. This principle is important to the cooperatives not only within the countries but beyond that also. Cooperatives are supposed to assist producers as also consumers in securing better price for their goods by reducing the middlemen's margin to the minimum. This is more so in the commodities and goods involving international trade where multinationals and big companies dominate the trade and dictate their prices and terms. For reducing the dominance of these multinationals they need some strong healthy competition. Producers' and consumers' own organizations could be the most appropriate organizations for this purpose. Exploitation by the big companies is not only in developing countries but also in developed countries and thus the need for cooperation among the cooperatives in

international trade within the developing countries as also with the developing and developed countries. While efforts have been made in this direction within the countries and to certain extent with success also, not much have been achieved in this regard in the International Trade. The only systematic attempt which could be acted is the UNICOOP-ACFT maize agreement. The ICA has been emphasizing the need of international trade on cooperative to cooperative basis since some time and have taken some concrete measures also. The ILO/SIDA project is yet another step in that direction.

**Cooperative exports vis-a-vis private export.**

Export and import trade by cooperatives is not much different from that by the private sector. In both the cases, as a buyer, one wants to have the best quality at the lowest price while as a seller one wants to sell the goods at the maximum price. This may be somewhat different from a public sector body which at times has to export or import in the larger national interest even if there are losses. However, inspite of the common object of selling/buying goods at the most advantageous prices, the difference of ownership between a co-operative and a private company does make a difference in other objects and actual operations. Some of the differences are :

**Private Sector**

**Co-operatives**

- |   |   |
|---|---|
| <ol style="list-style-type: none"> <li>1. A private exporter is his own master accountable to himself or one boss.</li> <li>2. Decision-making process is faster.</li> <li>3. Profitability is the main concern.</li> </ol> | <p>In a co-operative there are many masters and accountability is to many like, chairman, Board of Directors, various committees, general body, governments etc.</p> <p>Decision taking process is comparatively slow.</p> <p>A balance has to be maintained between profitability and social accountability.</p> |
|---|---|

- |  |   |
|--|---|
| 4. Avoids or distributes risk by covering goods according to the capacity of the supplier. | Have to carry the risk as suppliers are the owners from whom no guarantee or security could be enforced easily. |
| 5. Usually does not have many tiers.   | Usually have 3 or 4 tiers.  |
| 6. Can have mutual understandings beyond the legal contract                                | Have to work strictly according to contract terms.  |
| 7. Means are not that important and are often not questioned.                              | Integrity is important and means are always questionable.   |
| 8. Often work on DP terms and takes risk.  | Usually works on L/Cs to avoid disputes and risk.   |
| 9. Incentives and disincentives are related to performance.                                | Incentives are less accountability is more.   |
| 10. Can save taxes by short cuts.  | Cannot afford short cuts.   |

While co-operatives have many disadvantages in their workings compared to the private sector, they also have a few advantages like :

#### **Private exporter**

1. Do not have direct link with the producers.
2. Can have only commercial facilities.
3. Does not want to lose knowingly.

#### **Co-operatives**

- Have a built in organisation linked with the producers.
- Can have more resources, cheaper finance and government patronage.
- Can afford to lose to a certain extent knowingly with a social purpose.

It is often observed that when two co-operatives deal with each other they expect perfect performance and if something goes wrong each one not only tries to shift the blame to the other, but often

publicizes it at various forums and very often a deadlock is created. If the same thing happens in the private sector, they try to settle it quickly and continue in the trade. It is necessary for cooperatives to appreciate each other's shortcomings and extend all possible help and guidance to each other so that trade relations continue instead of leading to a deadlock. Profit and loss is a part of business and no one can completely avoid it. Cooperatives should also accept it boldly.

### SOME SAFEGUARDS

However, when a cooperative enters export trade, it has to keep certain considerations in mind to reduce the degree of risk. Some of these considerations could be as under :

1. Should not commit beyond its capacity keeping in view the organizational, financial, packing, transportation and shipping facilities ;
2. Should cover at least some stock ; say around 50% before entering the contract, to cover part risk ;
3. Should cover the balance stocks fast as soon as the contract is finalised ;
4. Deal should be kept secret to as limited number as possible at least till the stocks are covered and if possible till the goods are shipped, particularly if it is a big contract ;
5. If market is expected to go down or cost of stocks in hand is higher than prevailing market avoid adding further margin to inflate the cost ;
6. If the market is expected to go up necessary provision for fluctuation should be provided for the uncovered stocks.

### PROCUREMENT OF GOODS FOR EXPORTS

In any export business, procurement of goods is the important basic operation. The whole success of export operations will depend on the efficiency of the procurement machinery. The procurement operations of a cooperative are quite different from

those of a private company. A private company wants to retain the maximum profits and distribute the maximum risk and responsibility. A cooperative is supposed to retain only its expenses and some service charge while the maximum profit is supposed to flow back to the producers. Thus there is always a divided responsibility in case of a cooperative. To handle this divided responsibility and make the procurement operations efficient, it is necessary that every tier should be aware of his job and each one must be told about his role in buying, grading, storing, packing, movement, etc. The member-societies must also feel some involvement in the operations depending on their capacity. For this purpose the operations can be classified under the following main categories :

1. Export on agency basis — Profit and loss on members account
2. Procurement at market rate by paying service charges — Profit/loss on own account  
Patronage rebate afterwards in case of profits.
3. Outright purchase by negotiations — Profit/loss on own account  
Patronage rebate afterwards in case of profits
4. Joint venture — Sharing of profit and loss on mutually agreed terms.

### EXPORT ON AGENCY BASIS

This method is most suitable where the member cooperatives are well developed and strong and can handle all such responsibilities which are involved in the export and are prepared to bear the risk involved. In such cases, the exporting cooperative which is usually at the national level secures the orders on behalf of the member cooperative taking them into full confidence and looks after all the correspondence and negotiations with the foreign buyers either independently or along with the representative of member cooperative with such other operations as are mutually agreed upon. For these services it gets the expenses and a reasona-



ble service charge depending on its responsibilities. The profit and loss is on the account of member cooperatives.

### **PROCUREMENT ON SERVICE CHARGE BASIS**

This mode of operation is suitable when a member-cooperative is not developed and cannot afford to take risks. In this case, it procures the goods from the producers at the fixed market price. Operations relating to grading, packing storage, transportation etc. could be entrusted to the member-cooperatives depending on its capacity to handle these operations on mutually agreed terms and paid a fixed service charge and expenses. The risk or profit is to the account of the higher level exporting cooperative. The purchases under this are usually at competitive rates and profits earned in exports could be shared later on in the form of patronage rebate. Finance can be advanced before purchase or along the purchases or paid afterwards with provision for interest as mutually agreed upon.

### **OUTRIGHT PURCHASE**

In case of a member-cooperative which is actively involved in internal trade and has stocks with it to offer but does not want to get involved in the export operations, the exporting higher level cooperative can buy the stocks at negotiated price. Such a negotiated price can be either ex-godown or to be delivered at a mutually agreed point, duly graded and packed, depending on the capacity of the seller cooperative.

### **JOINT VENTURES**

This method encourages the member-cooperative to get involved in sharing of responsibility and profit and loss in exports so that both the institutions consider it as their own operation. It also reduces the risk of the apex body, and gives the member-society a chance to share the profit/loss out of exports. The sharing of profit would depend on the extent to which one is prepared to invest and take the risk.

# Market Research and Agricultural Export Marketing

T.J. MARCHANT\*

**T**HE theme of this paper is that export marketing should be built up on the basis of a carefully researched and planned campaign or programme. The decision to move into exporting is not one to be taken lightly or without forethought and planning. Export involves more than the mere expansion of a marketing programme from a domestic front to a wider international front. New forces come into play about which the exporter has hitherto not been unaware. Never does the basic trading maxim of "know your product and know your market" hold truer than in the field of export marketing.

A short case study may help to illustrate some of the pitfalls of precipitating too enthusiastically into the field of exporting. A certain public marketing organization had been developing a modest but reasonably successful reputation in the field of apple marketing. It had been undertaking such functions as packing, transporting, storing and selling in the domestic market on the growers' behalf as well as buying and selling on its own account. It had an active promotional campaign and was also active in the field of processing and the manufacture of fruit juice concentrate.

Recently it decided to move into the export market. Top management undertook a series of lightning visits to potential markets and a deal was made for the export of several tens of thousand boxes to a selected far Eastern market. With commendable speed, an order was placed by the organization for the manufacture of cardboard cartons. Standards based on EEC grades were hastily drawn up and within a few weeks the first couple of thousand boxes were on their way. Much to the chagrin and surprise of the organization the order was rejected in its entirety upon arrival at

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its destination. The reason, it turned out, was that upon inspection it was discovered that the entire quantity of fruit was badly jumbled and bruised and of sub-standard quality. It was considered unsaleable.

This venture into the field of exporting has been a costly one and some of the mistakes that were made are worth cataloguing :

- (i) The selection of market outlets was the result of a spot sale opportunity. The market itself was actually a very strong one and competition tough.
- (ii) An entirely new form of packaging, involving the use of tray packs, was introduced without prior testing. The result was that the cartons themselves were found to scuff and delaminate badly in transit. Even more serious was the fact that packers were not properly trained. The effect of this was that the trays were incorrectly arranged so that the packs travelled with apple resting upon apple, causing extensive bruising.
- (iii) The standards selected for the export order were inappropriate for the quality of the season's crop and consequently graders were unable to pack to the specified standards.
- (iv) The export venture was initiated in a year when the domestic prices were particularly high and the potential gain through export was, at best, very marginal.
- (v) The reputation of the entire national apple industry suffered a considerable setback on the international market as a result of the unfortunate experience.

It is not the purpose of this paper, however, to dwell on the negative aspects of exporting or to discourage potential entrants into the international field. No, the profits are there to be made. International trade is based on the concept of comparative advantage, and it is the task of the exporter to exploit and expand that advantage. This cannot, however, be achieved without a carefully researched and promoted export programme. The backbone of

such a programme is the discipline of market research. The world of the exporter is full of uncertainties and imprecise knowledge. He is continually forced to make decisions and to take risks on the basis of very limited data. The role of market research is to reduce the uncertainty of the export programme. Unlike academic research, market research, is very specifically problem-oriented. Market research is used to answer questions. Although market research was developed in the field of industry (and its conceived utility may be assessed by the increasingly larger share of the annual budget that firms are allocating to the market research units) it is equally applicable to agriculture and agricultural marketing.

An agricultural cooperative, marketing board or corporation faces certain additional problems when moving into the export field compared with a firm or organization which is marketing an industrial product in that there will always be a greater degree of uncertainty with regard to the volume of supply and quality of product. However, the approach to developing the export programme is similar. To begin with it is a question of making oneself as knowledgeable as possible about the market. This remark may appear ridiculously elementary, but the point to be understood is that learning about the market is becoming an increasingly, specialized and technical function. It rests on the discipline of market research. Market research is more than merely collecting and presenting reams of statistics. It is the application of these figures to provide answers to specific marketing problems. The starting point is usually some form of market survey or report.

A typical market report will involve an analysis of the production, consumption and pattern of trade of the commodity under review. It may also involve a study of competitive or complementary items as well. Initially, this involves a combing of all published statistics to see what is already available. It is surprising what can be dug up. It is a question of knowing where to look. Trade journals, national statistics and international year-books are standard sources. At first sight, the abstraction of figures of trade would appear to be a fairly simple undertaking. In

fact, however, there are many traps for the unwary. International trade returns are often difficult to read and compatibility between one count and another is often difficult to obtain. Reclassification of commodities often caused trouble. For example, in a particular report prepared by the Tropical Products Institute in London it was found that in the Indian returns up to 1956 turmeric was classified under spices. In subsequent year, it appeared that India had ceased exporting this commodity. In fact, turmeric exports were on the increase. The explanation was that it had been reclassified as a dye or colouring plant.

Published statistics will take one so far, but usually there will be a need for the market researcher to undertake additional hand-tailored surveys or enquiries. These may be of a technical, economic or promotional nature. Technical surveys would be undertaken to provide answers to such questions as "What are the most appropriate methods of handling, packing, transporting and storing the product?" The need for such preliminary technical market research is amply demonstrated in the apple export programme described earlier. Economic surveys are necessary to answer the most fundamental questions of what potential markets can be identified and what minimum price must one obtain in each such market to make the venture viable? Finally, promotional surveys are needed to as a pre-requisite to the formulation of an advertising and promotional campaign. Market research and advertising are two disciplines that are often closely linked. Advertising is concerned with promoting the product "image" and market research is needed to identify what such an image should be. For instance, with regard to the marketing of bananas, the demand in Europe is for an unblemished yellow fruit. The typical Indian banana, however, as a result of traditional handling practices, usually displays a number of black mark (and in fact, the Indian market shows a distinct preference for such colouration). Now if a campaign is proposed to market Indian bananas in Europe, either the handling in India would have to be radically changed or else a very ambitious promotional campaign would have to be launched in the European markets to convince the con-

sumers that banana with black markings are in fact tastier and more desirable than unmarked bananas.

It was stated earlier that export marketing should be considered in the context of establishing on-going and expanding programme. At this point, it is useful to bring in the idea that market research is not a static one-time affair. Data are continually needed. New decisions are being made daily and these decision need facts to support them. It may therefore, be that a feature of an export promotion campaign will be the establishment of an on-going information service. To illustrate this, I would like to quote the example of the Horticultural Crops Development Authority of Kenya which has helped over the last ten years to build up country's horticultural export industry from 1,500 tonnes air-freighted out of Kenya in 1967 to 22,508 tonnes air-freighted in 1979. A central feature of the HCDA's exports campaign has been the setting up of an international telex news service which linked the Kenyan horticultural suppliers directly with the European markets. As one HCDA official said, "The news service is important to the exporters and to Kenya as a whole because it keeps the industry fully informed of what the market situation is, which products are selling better in the various markets we operate in, and, with the limited air capacity which is available from Kenya, how can they best utilize that capacity by supplying those markets with the products that will sell best. It is also educating farmers to be more aware of what their products are worth. In addition it helps discourage against traders under-paying farmers for produces". One of the most striking results of the service has been the boost to the rural development process. After the information service had been functioning for only ten months, HCDA estimated that the services has created between \$ 500,000 and \$ 700,000 worth of new business for exporters. After another year this figure is expected to have doubled. This gain has been possible because the exporters now know when and where to sell abroad to get the highest prices. This is the classic example of market research and market information helping to reduce the uncertainties in the minds of the exporter.

One might conclude from what has been said so far that market research is the panacea for all ills in the field of export marketing. It is certainly true that the sort of information that is supplied through market research is desperately needed, but one must remember that market research is an applied science and not a pure science. This implies that to be justifiable it has to be used in a practical manner. In the field of industry if research is undertaken for a particular company the findings of the research are considered by the Board which then either agrees or disagrees with the survey. Decisions are then made by the Board on the basis of the survey results. Unless, however, such a decision-making authority exists the value of research is of limited use. It is of little use, for instance, to undertake a market research exercise for, say, the tomato industry or mango growers unless they are organized into some collective body that is capable of taking decisions on the basis of the research that has been undertaken. Thus, successful use of market research in agriculture demands the existence of an organization capable of taking decisions. The cooperative movement automatically suggests itself as an appropriate organization for undertaking large-scale export programmes.

## **THE INTERNATIONAL COOPERATIVE ALLIANCE**

is one of the oldest of non-governmental international organisations. It is a worldwide confederation of cooperative organisations of all types. Founded by the International Cooperative Congress held in London in 1895, it now has affiliates in 72 countries, serving over 500 million members at the primary level. It is the only international organisation entirely and exclusively dedicated to the promotion of cooperation in all parts of the world.

Besides the Head Office of the ICA, which is in Geneva, there are three regional offices, viz., the Regional Office for South-East Asia, New Delhi, India; started in 1960; the Regional Office for East and Central Africa, Moshi, Tanzania, started in 1968 and the Regional Office for West Africa, Bingerville, Ivory Coast, started in 1979.

The main tasks of the Regional Office & Education Centre are to develop the general activities of the Alliance in the Region, to act as a link between the ICA and its affiliated national movements, to represent the Alliance in its consultative relations with the regional establishments of the United Nations and other international organisations, to promote economic relations amongst member-movements, including trading across national boundaries, to organise and conduct technical assistance, to conduct courses, seminars and conferences, surveys and research, to bring out publications on cooperative and allied subjects and to support and supplement the educational activities of national cooperative movements. The Regional Office now operates on behalf of 17 countries, i.e. Afghanistan, Australia, Bangladesh, China, India, In  
Republic of Korea, Democratic Republic  
Nepal, Pakistan, Philippines, Singapore, S

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