

COOPFED - SRI LANKA

The Birth Of A Consumer Cooperative Federation

TWO STUDIES BY ICA ROAP

Karl Fogelstrom
Senior Development Advisor
ICA ROAP



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The Birth of a Consumer
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Foreword

The Sri Lanka Consumer Cooperative Federation (COOPFED) was registered in September 1989 and started its business operations in March 1990. The COOPFED had a remarkably successful first year of operation. Seventy two per cent or 206 of 286 Multi Purpose Cooperative Societies (MPCS) had joined having paid sixty eight percent of the full share capital value. The turnover was nearing one billion Sri Lankan Rupees. The secret behind the good start of COOPFED can be attributed to three main factors :

- the primary societies need the services provided by COOPFED.
- dedicated work by the Board of Directors and the General Managers and his staff.
- active support from the government.

The ICA ROAP has carried out two studies on COOPFED:

In May 1990, "The Present Situation And Proposals For Actions To Be Considered By COOPFED", and in May 1991 "COOPFED As Perceived By The Multi Purpose Cooperative Societies".

The purpose of these two studies was to give the leadership of COOPFED practical proposals and feedback pertaining to the future development of the Consumer Federation. These two studies may be of interest for a wider audience as an example of how a Consumer Cooperative Federation can be developed within a short period of time.

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Senior Development Advisor
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New Delhi, March 1992

PART : I

The Situation in May 1990

PART I : THE SITUATION IN MAY 1990

The Consumer Cooperative Federation of Sri Lanka (COOPFED)

*The Present Situation and Proposals for Actions
to be considered by COOPFED*

1. INTRODUCTION

1.1 Purpose of the Study

The purpose of this study is to provide the Board of Directors of the Cooperative Consumer Federation of Sri Lanka with:

- an analysis of the present situation
- a list of priorities for measures to be taken in the coming 4 - 6 months
- a list of issues and proposed actions of a more long term nature

It is recommended that the Board of Directors of COOPFED as a matter of urgency formulates and adopts a concrete Plan of Action to be carried out during the next 4 - 8 months.

1.2 Over-all Objective and Rationale of COOPFED

The over-all objective and rationale for an apex organisation for the consumer operations of the Multipurpose Cooperative Societies could be formulated as follows :

- The Cooperative Consumer Federation of Sri Lanka is a member-owned, democratic and independent cooperative consumer federation whose main function is to procure and supply its member societies with products

for resale to its members at competitive prices and to provide other services so as to improve and strengthen the economic situation of the member societies and ultimately of their individual members - men and women alike.

- COOPFED shall in fulfilling its objectives operate as an economically and financially viable organisation adhering to universally accepted trading practices and in accordance with ICA's definition of the Cooperative Principles.
- COOPFED shall together with its members societies promote consumer awareness and protection by procuring healthy and environmentally safe products and by providing information to this end to its members and the general public.
- COOPFED shall together with its members societies promote and encourage social and cultural activities amongst its members.

2. CONCLUSIONS AND RECOMMENDATIONS

It is clear to everyone that the coming six months will be crucial for the future of the COOPFED. It is of utmost importance that the leadership of COOPFED lays down a clear strategy and plan of action to be implemented with determination and consequence.

The two most important measures to be undertaken without delay are :

- to launch a massive campaign to make more MPCSSs join COOPFED as members.
- to increase the volume of business.

2.1 More Members and Increased Share Capital

At the present time only 72 out of 286 MPCSSs are members of COOPFED. This is a surprisingly low figure as the coming of COOPFED naturally should be welcomed by all MPCSSs. The

overall objective and rationale behind COOPFED is to strengthen the MPCs and ultimately to benefit the members of the MPCs. It is important to analyse and identify the underlying reasons for this lukewarm attitude towards COOPFED. Increased membership also means the COOPFED can improve its capital base which right now consists of Rs. 800,000 paid up share capital and a loan from the Cooperative Department amounting to Rs. 4 million. The potential share capital assuming that all 286 MPCs have joined and paid their shares in full would amount to Rs. 7,150,000. At present about 11% of that amount has been paid.

Concrete measures to be undertaken to increase the number of members would be :

- to draw up and carry out a programme to visit all the MPCs in order to meet their Board of Directors and Senior Staff Members. This programme should be carried out during the period May - August 1990. Start with MPCs that are judged most inclined to joined COOPFED. In this way there is a possibility to build up an increasing momentum making it more difficult for the remaining MPCs to remain outside COOPFED.
- to set up monthly targets for the number and names of MPCs to be persuaded to join COOPFED.
- the responsibility for working out and executing the membership campaign lies with the COOPFED's Board of Directors.

Even if the Government can and should facilitate, promote and support the process of building up of the membership base (and thus also the volume of business), the most important aspect is that the MPCs join and buy from COOPFED based on a positive attitude and conviction that the MPCs and their members benefit economically from being members of COOPFED.

2.2 Increase Volume (Income) of Business

COOPFED has during its first two months of operation (March, April 1990) earned an income of Rs. 17,700 plus Rs. 47,125 out of sales of five commodities i.e.; sugar, milk food,

cement, tinned fish and soap/washing powder. There are two main reasons to increase the volume of business:

- it is important to have an expanded assortment to offer to the MPCs in order to facilitate the membership campaign.
- COOPFED must very quickly reach a volume of business income, big enough to earn a commission to cover its recurrent expenditures currently running at approx. Rs. 45,000 per month. In addition to this COOPFED has received a loan from the Cooperative Department of Rs. 4 million at an estimated interest rate of 4% p.a. or Rs. 160,000 or Rs. 13,300 per month.

Concrete measures to be undertaken would be :

- to take measures to become dominant supplier to the MPCs of the volumewise most important products by negotiating with manufacturers/suppliers and relevant government authorities.
- to identify additional items to be procured and offered for sale to the MPCs. Criteria for selection of items would be that these would not require storage or transport by COOPFED. Only when COOPFED has gained some measure of financial strength can storage be considered.
- to establish a working group (5 - 10 members) consisting of representatives from member MPCs such as General Managers and Sales managers, to assist COOPFED in identifying which new items to include in the assortment.
- to prepare monthly Income & Expenditure Budgets and Cash Flow projections. It is important to observe economic and financial prudence for a new organisation.
- to concentrate on domestic commodities in the start-up phase. Only when COOPFED has secured sufficient volume of business to pay for the expenditures and

gained in financial strength may import/export be considered.

2.3 Defer Non Commercial Activities

A sound economic and financial base is an absolute prerequisite for embarking on non-commercial activities or services. These services can be gradually introduced as COOPFED accumulates sufficient business volume and gains financial strength.

2.4 Other Pertinent Issues

- It would be advantageous to acquire some fast moving, high volume products which could be marketed under COOPFED's own Brand name. These items should preferably be marketed exclusively through member MPCSSs. By means of marketing/advertising measures demand for the products would be created also among members of MPCSSs which have not joined COOPFED thus persuading these MPCSSs to apply for membership in order to get access to COOPFED Brand products.
- The principle should be that member-MPCSSs are to receive markedly higher commission and other benefits from COOPFED than non-member MPCSSs. This should also be made known in order to create incentives for joining COOPFED.
- The Boards of Directors of the MPCSSs should be persuaded to pass resolutions to buy from COOPFED also when COOPFED is selling at the same price as the competitors.
- Work with a lean organisation. Be very cautious to adding new fixed costs to the organisation.
- Do not consider any creation of three-tier structure during the first two to three years. Most MPCSSs already cover fairly large areas and do not in fact represent a two-tier structure themselves i.e. they receive goods to one central place and distribute the goods from that

central place to the retail outlets.

A system or mechanism should be devised in order to secure that the size of the share capital grows in proportion to the increased volume of business.

Various principle alternatives and even a combination of alternatives can be considered to achieve this. One way is to retain a proportion of the commission paid to the member societies. Another is e.g. to decide that the member societies should buy an additional share for every Rs. 10 million of purchases per year from COOPFED.

3. PLAN OF ACTION AND TIME SCHEDULE

Short term (May-August 1990 Activity)	Target	Responsibility implementation	Time Schedule
1. Increase membership - meetings with Boards of Directors	200 MPCs before end of August broken down into monthly targets	COOPFED's Board of Directors	May-August 1990
2. Increase share capital - meetings with Boards of Directors	Rs. 1,500,000 paid up share capital as at 31.08.90	COOPFED's Board of Directors	May-August 1990
3. Increased volume of business (income) - establish MPCs- COOPFED joint working group to identify additional items to procure	Reach Rs. 100,000 per month by August 1990	COOPFED's General Manager	May-August 1990

take measures to become dominant supplier of the volumewise most important products through negotiations with suppliers and relevant government authorities

Reach this position by end of August

COOPFED's Board of Directors/
General Manager

May-August 1990

4. Monthly Income/ Expenditure Budgets and Cash Flow projections

Budget/Cash Flow system to be devised and introduced in May

COOPFED's Accountant/
General Manager

May 1990 and then monthly preparation/ follow up

5. Persuade MPCs Boards of Directors to pass resolution to always buy from COOPFED when COOPFED offers products at the same price as the competitors.

All members MPCs to have passed such resolutions by August 1990

COOPFED's Board of Directors

May-August 1990

- meetings, circulars.

Long Term

(May 1990 onwards)

(May-August 1990
Activity)

	Target	Responsibility implementation	Time Schedule
1. To become major supplier of goods to the MPCSS		COOPFED's Board of Directors General Manager	Continuous
2. To gradually diversify and expand the commercial operations	To engage in import/export, storage, transport, avail credit facilities to MPCSS, processing and manufacturing	COOPFED's Board of Directors General Manager	Continuous
3. To promote consumer awareness and consumer protection by procuring healthy and environmentally safe products and by providing information to members and general public.	To create awareness amongst members and the general public	General Managers Board of Directors of COOPFED and MPCSSs	Continuous

4. Promote social and cultural activities amongst the members	To enrich the lives of the members	
6. Promote Human Resource Development through training and education, personnel policies etc. of elected representatives, staff and members	To bring about active, enlightened members and elected representatives and professionally competent staff	General Managers Boards of Directors of COOPFED and MPCSS Continuous
6. Provide advisory services to MPCSS on management, internal control, marketing etc.	To uplift the economic performance of the MPCSS's for the economic benefit of the members	General Managers Board of Directors of COOPFED and members Continuous
7. Devise and introduce a system for increasing the share capital contribution from MPCSS	To secure that COOPFED's own capital (equity) relative size is maintained.	

4. COOPFED - A PROFILE

4.1 Registration

Coopfed was registered on 15.09.89 and the first commercial transactions were entered into on 7th of March 1990.

4.2 Membership

At the present time (May 1990) 72 out of 286 MPCSSs have joined COOPFED.

4.3 Share Capital

The Value of one share is Rs. 25,000 to be paid in four instalments within one year. The paid up share capital amounts to Rs. 800,000 as at April 30th 1990 constituting 44% of the Rs. 1.8 million to be paid by the 72 MPCSSs.

The maximum share capital would be Rs. 7,150,000 (286 MPCSSs x Rs. 25,000/share). The present paid up share capital thus represents 11% of the potential share capital.

4.4 The Board of Directors

The Board of Directors consists of 10 MPCSSs representatives. The Chairman is elected by the General Body. All nine provinces are represented on the Board of Directors.

4.5 Staff

The Staff consists of 7 employees (May 1990) viz; General Manager, Accountant/Financial manager, Secretary, Typist, Accounts Clerk/Trainee and two Office Attendants.

The General Manager has a Bachelors Degree in Business Administration and 12 years working experience in the fields of Marketing and Management.

The Accountant/Financial Manager has 30 years experience from the Cooperative Department as Assistant Commissioner, in charge of Audit etc. and has attended numerous government courses during his long career.

The Secretary has a General Certificate of Education, Advanced Level; Diploma in Cooperative Management and Diploma in Public Relations and Management. The Secretary has 11 years working experience, all in the cooperative sector.

4.6 Economic and Financial Position

The income in the form of commission from sales to the MPCs amounted to Rs. 17,700 in March, the first month of operation, and to Rs. 47,100 in April.

The recurrent expenditures amounts to Rs. 45,000 to 50,000 per month. In addition to this COOPFED has to pay interest on the loan from the Cooperative Department of Rs. 4 million at an Interest rate of 4% p.a. which equals Rs. 160,000 per year or Rs. 13,300 per month.

5. THE MULTIPURPOSE COOPERATIVE SOCIETIES - SOME OBSERVATIONS

A thorough analysis of the performance of the MPCs and proposals for improvements is contained in the 1989 Workshop Report "Development of Consumer Cooperative Movement in Sri Lanka". It would be beyond the scope of this study to go into great detail but some important aspects with a bearing on COOPFED will be commented upon.

According to the Workshop report and now reinforced by visits to MPCs and interviews, it is apparent that the MPCs by and large lack a clear sense of direction for their operations. The sense of belonging of their members seems generally to be weak or non-existent. The great majority of members do not receive more benefits than do non-members.

For their economic results the MPCs are relying mostly on the wholesale to private traders and on the banking activities. Their retail activities are more often than not running at a loss.

The gross profit levels appear to be very insufficient. According to the Workshop Report this is mainly caused by "bad purchasing, corrupt practices in purchases, leakages and poor stock management".

In this connection it should be stated that there are outstanding exceptions to this bleak picture of the MPCSSs described above. There are a number of MPCSSs that are well functioning, are member-oriented, have satisfactory level of profitability and a dedicated leadership. It is to these MPCSSs that one should look for remedies.

In conclusion there appear to be three areas that deserve attention:

I. Priority to Member-Oriented Activities

The MPCSSs should give priority to and concentrate on member-oriented activities. If possible members should be paid dividends on their purchases.

Education and information to members and elected office bearers should be intensified.

II. Improve Management

High priority should be given to Human Resource Development through :

- the introduction of coherent personnel policy,
 - improved salary structure in order to attract qualified management staff
- (and as an insurance against corruptive purchase practices)
- recruitment of high calibre management staff,
 - continuous upgrading of skills and techniques through internal and external training and education.

III. Improve Profitability

- eliminate corrupt purchase practices
- support COOPFED to reach bigger volumes resulting in lower purchase prices, higher gross profit margins and also in more competitive prices to members/consumers
- pricing of goods to be made more flexible and market oriented
- improve the internal control

PART : II

The Situation in March 1991

PART II: THE SITUATION IN MARCH 1991

The Consumer Cooperative Federation of Sri Lanka (COOPFED)

*COOPFED as Perceived by
The Multi-Purpose Cooperative Societies*

1. INTRODUCTION

The International Cooperative Alliance Regional Office for Asia and the Pacific (ICA ROAP) undertook a consultancy study in May 1990 with the aim of providing the Board of Directors of the Sri Lanka Consumer Cooperative Federation (COOPFED) with:

- an analysis of the present situation,
- a list of priorities for measures to be taken in the coming 4-6 months,
- a list of issues and proposed actions of a more long term nature.

A follow up consultancy study was carried out in March 1991 with the aim of :

- assessing the development of COOPFED since last year,
- examining the performance of COOPFED as perceived from the MPCs point of view,
- to provide the Board of Directors and the Management with a list of recommendations and proposals for action.

2. COOPFED's FIRST YEAR OF OPERATION-1990

The Sri Lanka Consumer Cooperative Societies' Federation Limited, "COOPFED" was registered on 15th September 1989. The business operations started officially on 7th March 1990 with 6 employees. The membership stood at 61 with a paid up share capital amounting to Rs. 857,700 as at the beginning of March 1990.

The development of membership and share capital in 1990 is shown in the following table :

	<i>Membership</i>	<i>Share Capital (Rupees)</i>	<i>Turnover (Rupees)</i>
31.12.89	60	813,950	-
31.01.90	61	820,200	-
28.02.90	61	857,700	-
31.03.90	66	947,700	7,423,565
30.04.90	73	1,001,450	60,814,179
31.05.90	86	1,236,634	44,559,356
30.06.90	123	1,916,950	63,770,447
31.07.90	160	2,470,000	99,427,287
31.08.90	187	2,979,000	140,182,122
30.09.90	201	3,200,100	115,961,564
31.10.90	204	3,378,050	137,143,563
30.11.90	206	3,499,300	135,003,282
31.12.90	206	3,535,550	128,897,788

Total turnover: March-December 1990: Rs. -933,188,157

There are 286 Multi Purpose Cooperative Societies in Sri Lanka out of which 206 societies or approx. 72% have joined COOPFED. The 206 member societies have contributed Rs 3.5 million which is 68% of the full share value i.e. they are still to pay Rs. 1.6 million. The value of one share is Rs 25,000.

The turnover increased very rapidly from March to August after which it has levelled off.

The staff force was 16 as at the end of the year. The development of the staff is shown in the Organisation Chart in Appendix 1.

The development both in terms of membership, share capital contributions and turnover has been remarkable and indicates interest and confidence in COOPFED on the side of the member societies and a great zeal to develop the young organisation manifested by the Board of Directors and the General Manager and his staff.

In the May 1990 Consultancy Study the Board of Directors and the General Manager were given 4 recommendations and targets to be reached by the end of August 1990:

1. to have 200 members.
 - they reached 187
2. to increase share capital up to Rs. 1.5 million.
 - they reached Rs. 2.98 million.
3. to reach a sales volume giving Rs 100,000 per month in commission (gross profit).
 - they reached over Rs. 700,000 (0.5% of Rs 140 million).
4. to take measures to become dominant supplier to the MPCSSs of the volume-wise most important products.
 - COOPFED has obtained license to procure sugar from the importers. By eliminating the middlemen the purchase as well as the consumer price of sugar has been reduced considerably (10 - 15%).

All the targets were by and large met. The most important measures were to rapidly increase membership and share capital in order to get a firm basis for increased business volume. An impressive membership drive was subsequently launched in June-July 1990 which resulted an almost tripling

the number of member societies.

The Final Accounts for 1990 shows a total turnover of Rs. 933 million. The total income in the Profit and Loss Account amounts to Rs. 5.5 million or 0.58% of the turnover. The net profit is Rs. 3.4 million or 0.36% of the turnover.

Crucial Government Support

Some specific factors have in a significant way contributed to the impressive performance of the COOPFED during its first year of operation:

- COOPFED received a loan of Rs 6 million at a 4% concessionary rate of interest from the Cooperative Development Department. The prevailing interest rates are above 20% per annum.
- The present business premises are free of charge, COOPFED is not paying any rent.
- The Ministry of Food & Cooperatives has given COOPFED very active support in the membership campaign by resolutely persuading the MPCSSs to join the COOPFED.
- Active support and guidance by officials from the Co-operative Development Department.

It is quite obvious that this massive support from the Government has been of crucial importance for the rapid expansion of COOPFEDs business operations in 1990.

To summarize one could state that the positive development of COOPFED is a combined result of the dedicated efforts by the Board of Directors and the General Manager and his staff and the substantial support extended by the Government.

3. A PROFILE OF THE MULTI PURPOSE COOPERATIVE SOCIETIES

The history of the Cooperative Movement in Sri Lanka is characterized by strong influence and persistent intervention by the Government. In 1957 the then Government in a policy decision took steps to introduce Multi Purpose Societies Co-operative Societies in every village. The village based MPCSSs were functioning as the main channel for subsidized consumer goods. In 1971 the Government decided to carry out an extensive reorganisation and the about 5000 mainly primary societies at village level were amalgamated to form large scale Multi Purpose Cooperative societies. The MPCSSs were to be engaged not only in the distribution of general as well as subsidised consumer goods but also in providing fertilisers and agro-chemicals, agricultural credit facilities and in organising marketing and savings. Today there are 286 large MPCSSs which are in fact Multi Purpose by name only as they are predominantly engaged in consumer services and banking. Only a handful MPCSSs are, to any larger extent, engaged in agricultural marketing and in supply of agricultural inputs.

The activities of the MPCSSs are dominated by wholesale to private traders. The genuine consumer cooperative activity plays, with a few exceptions, a subordinate role. For their economic results the MPCSSs rely heavily on wholesale to private traders and on banking activities. Their retail operations i.e. the consumer cooperative activities, are more often than not running at a loss. The gross profit levels appears to be insufficient and mainly caused by "bad purchasing, corrupt practices in purchasing, leakages and poor stock management". (ref. 1989 Workshop Report on "Development of Consumer Cooperative Movement in Sri Lanka").

As a consequence of the reliance on "non-members oriented activities" and of the dominant presence of the Government, the sense of belonging among the membership must be characterized as weak or even non-existent. There are, however, a number of MPCSSs that are well functioning,

member-oriented, having a satisfactory level of profitability and a dedicated and competent leadership and management.

The MPCs today still have central function in the distribution of essential food items under the Government Food Stamp scheme. The position of the MPCs as genuine cooperatives is consequently a bit ambiguous and they would most adequately be characterised as "Government or pseudo-cooperatives". The Government still maintains a big stake in the operations of the MPCs and the presence of the Government is strongly felt through its executive arm - the Department for Cooperative Development.

The cooperative legislation, the Cooperative Societies Act, was last amended in 1985. The present act gives the Government extensive powers to intervene in the running of the affairs of the cooperative societies. A new law is now under preparation and according to the information received the new act will go a long way in granting the cooperatives independence to run their own affairs.

4. MAIN OBSERVATIONS

4.1 General

The focus in this consultancy report is on how the COOPFED is perceived from the point of view of the Multi Purpose Cooperative Societies. The MPCs are the owners of COOPFED and the performance of COOPFED should meet the requirements and expectations of the MPCs.

A number of MPCs were visited by the consultant who interviewed the General Managers and other senior executives. In addition in-depth discussions were held with representatives of the Cooperative Development Department as well as with the General Manager of COOPFED itself.

The MPCs visited were generally satisfied with the performance of COOPFED. They said COOPFED had greatly contributed to a more unified price structure among the MPCs. They were specially proud that COOPFED has

succeeded in lowering the consumer price of sugar. They pointed out, however, that they did not yet have the same price advantage concerning other consumer goods. They emphasised that there is a great need of solidarity towards COOPFED from the MPCs in the build-up phase of COOPFED and they would like all the MPCs to have patience if they felt that COOPFED was not perfect as yet in all respects.

During the intensive membership campaign the MPCs were more or less forced to join and start buying from COOPFED - it was not a free choice based on a conviction that they would benefit from becoming members. Now that the Government had relaxed its instructions to the MPCs to buy from COOPFED they knew of MPCs that had started to turn away from COOPFED and gone to private traders.

4.2 Spokesmanship

It is strongly recommended that COOPFED should act as the spokesman for the MPCs and their consumer members in relation to the Government and concerned authorities and organisations. It was felt that COOPFED had not yet lived upto their expectations in this respect.

4.3 Information and Communication

All MPCs complained about lack of or too little information about COOPFED's plans, problems and operations in general. They would like to get information more frequently and suggested that COOPFED and the MPCs should meet regularly and discuss and exchange views in order to sort out and avoid misunderstandings. They appreciated the special 5 min. radio programme which is broadcasted three times a week at 6.25 p.m. - but they stressed that it did not cater for all information needs.

4.4 Supply of Goods

A general remark was that since the coming of COOPFED it was no longer necessary to go to so many places to

purchase goods. Another common remark was that COOPFED would need to include more items and varieties in its assortment.

All MPCSSs urged COOPFED to buy directly from or as close as possible to the source: i.e. the manufacturer, the importer, or to import itself. COOPFED should also obtain rights or licenses from the relevant authorities to import and trade in any commodity required by the MPCSSs. The largest selling commodity, wheat flour, is still obtained only from a government agency.

They also recommended COOPFED to start buying agricultural produce like chillies, green grams, potatoes etc., direct from MPCSSs in areas with surplus production and sell to deficit areas. Also processing and packaging of agricultural produce was suggested.

Many felt that COOPFED still to a very large extent played the role of a middleman. COOPFED was not always the cheapest supplier and one reason could be that COOPFED did not yet possess sufficient knowledge of the market or that some "obscure benefits" were accruing to the purchase officers. In other instances COOPFED was not in a position to deliver certain goods forcing the MPCSSs had to buy from other suppliers.

4.5 Finance

As already mentioned above COOPFED is benefiting from a soft loan from the Government now standing at Rs. 5 million. The annual interest on the loan is only 4% COOPFED has made good use of the money and generally shown proper prudence its financial affairs.

Cash management is an important area to handle skillfully in any commercial enterprise. This naturally also goes for the MPCSSs as well as for COOPFED. The MPCSSs recommended that COOPFED should take the leadership in negotiating with the banks on behalf of the MPCSSs.

There was a remark from some MPCSSs that there were

cases when they had previously got one month credit from a private supplier. Now when buying through COOPFED from the same supplier they were asked to pay cash on delivery.

The MPCSSs would like COOPFED to start accepting deposits from the MPCSSs in order to enhance the overall financial position of COOPFED and also to enable COOPFED to obtain maximum advantages when dealing with suppliers.

The MPCSSs also recommended COOPFED to retain part of the rebates to the MPCSSs in order to make COOPFED financially strong and independent. COOPFED should also use the funds collected for educational and promotional purposes.

4.6 Staff and Administration

The MPCSSs complained about COOPFED's administrative routines and procedures as being cumbersome, bureaucratic and time consuming. When dealing with COOPFED they have to go to several salesmen each issuing separate bills. The private traders, the MPCSSs claim, are faster and more flexible.

Commenting on the quality of COOPFED's staff the MPCSSs strongly emphasized the need to employ competent persons with solid business/commercial experience. The MPCSSs apparently are of the opinion that this has not been the case up till now.

5. CONCLUSIONS & RECOMMENDATIONS

5.1 General

COOPFED has had a very successful first year of operations and it is now the right time to draw up a comprehensive plan for the future strategy and lines of action for the organisation.

Such a Strategic Plan should be worked out jointly by

COOPFED and the MPCSSs, preferably starting with a joint planning workshop with broad participation. A planning Task Force can then do the detailed planning work to be presented to MPCSS for comments, suggestions and final approval.

The great advantage with a participatory planning process is that the plan :

- i) will reflect the views, ambitions and visions of the MPCSSs in their capacity as both owners and customers.
- ii) can be implemented with full support and approval of the MPCSSs as they have participated fully in the planning process.

5.2 Spokesmanship

COOPFED should develop and actively pursue its function as spokesman for the consumer cooperative movement in Sri Lanka and speak up on matters affecting the interest of the consumer members.

As long as the present close association with the Government persists it may inhibit COOPFED's inclination to take independent stands in cases where the Government's view is different from that of COOPFED.

5.3 Information

There is an apparent need for more information and exchange of information between COOPFED and its affiliates. Transparency is a prerequisite for the creation of mutual confidence.

COOPFED and the MPCSSs need to devise a mechanism for regular and sufficiently frequent exchange of information.

Installation of telefaxes in the MPCSSs (telefaxes are today relatively inexpensive and affordable) is one efficient technical solution for quick and reliable communication.

Regular meetings, monthly, quarterly etc, whatever is deemed appropriate, on Managing Directors' and Sales Managers'

levels could be considered.

5.4 Supply of Goods

This is the core activity and it is only natural that the discussions in the interviews were focussed on this activity.

COOPFED should carefully examine its purchasing function with the view of procuring commodities as favorably as possible. This very often means buying direct from the manufacturer, the importing agency, or to import oneself. It also presupposes that COOPFED secures the necessary rights and licenses from the relevant authorities.

COOPFED should carefully examine its assortment of commodities with the view of gradually increasing the number of items. Likewise COOPFED should consider to keep certain items in stock but do it very conservatively as the keeping of stocks always is costly and risky.

COOPFED should develop its "market intelligence" capacity in order to track the best and most reliable suppliers.

COOPFED as well the MPCSSs need to devise mechanisms and procedures to safeguard against malpractices in conjunction with procurement of commodities. The Board of Directors should formulate clear purchase policies and also secure that these policies are properly adhered to. (see also 5.6 last para).

COOPFED must expose the daily tenders to the MPCSSs' purchasing officers (Transparency).

COOPFED should compile periodically, eg. quarterly, statistics of the MPCSSs purchases and analyse the information in order to keep track of how faithful or loyal the various MPCSSs are in relation to COOPFED. In the final analyses of course the only way for COOPFED to get full backing and support from the MPCSSs is to be competitive and preferably even more efficient than the private traders.

COOPFED should carry out feasibility studies and economic calculations regarding procurement of agricultural produce from the MPCSSs and other farmers organisations. Like-

wise COOPFED should study the feasibility of embarking on processing of agricultural produce.

5.5 Finance

COOPFED has been provided by the Government with free premises and a soft loan (4% interest per annum and a five year repayment period). As mentioned earlier this has been a crucial support and it has assisted COOPFED greatly during its first year. The only investments COOPFED has made so far are in movable assets like office furniture, equipment and an office car.

It is important that COOPFED now starts to prepare for a more normal situation. The soft loan will have to be repaid and COOPFED may have to borrow at market rates. If and when COOPFED starts to keep stocks the capital requirements will increase drastically. It cannot be taken for granted that COOPFED will have the privilege to operate in premises which are free of charge perpetually.

COOPFED should therefore always use market rates for capital cost in its cost calculations. The difference should be used to build up its own capital or equity.

The proposal from the MPCSSs to start accepting deposits from the MPCSSs should be thoroughly assessed and if found feasible it should be implemented.

Likewise the suggestion to retain part of the rebates to the MPCSSs in order to build up COOPFED's financial strength deserves to be considered seriously.

COOPFED should negotiate with the banks concerning the financial requirement of the MPCSSs.

5.6 Staff & Administration

COOPFED has grown very quickly and is today no longer a small business establishment where the General Manager can keep track of all transactions. The manager will have to rely on more indirect methods and procedures to lead and control the organisation.

It is therefore strongly recommended that a study of COOPFED's organisation, administrative routines, procedures and management information system is undertaken in order to come out with suggestions and recommendations to be considered by COOPFED's management. It is quite obvious that an implementation of a computerized management information system including accounting and internal control will be one of the key recommendations.

The study would best be carried out by an external consultant together with the COOPFED management team.

Likewise there is a need to prepare a manpower development plan for COOPFED as well as for the MPCs. One key aspect is the question of remuneration of staff. In the discussions and also in various reports the question of the integrity of the personnel both in the MPCs and in COOPFED has surfaced again and again. It is generally recognised that an acceptable salary level is the most efficient means to prevent or at least significantly reduce the temptations for dishonest practices. This is not fully understood in the cooperative sector where the salaries generally are below those of the private sector.

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