

The Institute for the Development of Agricultural Cooperation in Asia-Japan [IDACA]

**LESSONS RELEVANT FOR AGRICULTURAL COOPERATIVES  
IN DEVELOPING COUNTRIES OF ASIA-PACIFIC REGION**  
[Derived from the Experiences of Japanese Agricultural Cooperatives]

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## **Background**

Agriculture still continues to be the most important economic activity in almost all countries of the Asian and Pacific Region contributing to the highest percentage of labour force and the GNP. Agriculture is still the major source of livelihood for majority of the population in the Region. However, agricultural productivity is subject to violent fluctuations caused by its heavy dependence on monsoon and damages caused by natural calamities. Measures taken for prevention of damages to agricultural crops are inadequate and systems for disaster compensation are generally inadequate and *ad hoc*.

Agricultural cooperatives are functioning, in one form or another, in almost all the countries of the Asia-Pacific Region. The cooperative activity started mostly with government assistance and initiatives or as a result of development projects sponsored by bilateral or multilateral agencies. Each country has evolved its own pattern for organisational structure and functioning of these cooperatives. One thing common to all, however, is the existence of small and marginal farmers depending entirely for their livelihood on the meagre incomes from their smallholdings. The present role of cooperatives in providing a suitable infra-structure which can help add value to primary produce, except in a few cases, where agro-processing has been undertaken with positive results, is far from satisfactory.

Agricultural cooperatives are of immense importance to people. However, they suffer from a number of inherent weaknesses e.g., a] the individual farmer cannot fight against the brute force of market and is unable to obtain the economies of large-scale production by his own efforts alone. Majority of farmers are small and are often scattered. They are unable to influence the market on their own; b] the yield from investment in agriculture is, on an average, much below that in industry or trade. This is because of: i] high inherent risk involved in production due to climatic factors and other contingencies; ii] the high percentage of fixed costs and the long production cycle making agriculture less flexible for coping up with sudden changes in demand; iii] a highly imperfect market, perishable nature of many agricultural products and the lack of sufficient and suitable storage and processing facilities owing to which the farmer is compelled to sell his produce immediately; and iv] difficulties in obtaining the required finances to meet his farm and household needs.

In cases where cooperatives are unable to respond to the marketing needs of the members, middlemen thrive and the farmer-members invariably get sucked into the



vicious circle which the cooperatives are supposed to eliminate. In developing countries, marketing of agricultural produce is quite complicated. The size of the farm holdings being small, the storage facilities being inadequate, the means of transport and communication being backward, the farmer being illiterate and the government procedures being so difficult to follow make things difficult. The process of marketing involves a number of activities e.g., collection of the produce at one place, storage, providing finances to the members till the produce is not sold, insurance against risks, standardisation of the product and transporting the produce to the market. Middlemen also play their negative part to the disadvantage of the farmers. In such an event agricultural cooperatives come to the rescue of the farmer-producers. They try to provide the farmers with an easy credit and other farm inputs and services. Cooperative marketing helps in providing efficient marketing service at places where they do not exist; in increasing the income of the farmers through better returns for their produce; in stabilising the prices; in keeping the margin of profit low and in exploring better markets and in offering agro-processing to add value to the basic produce.

### **Success Spectrum**

The success spectrum within the Cooperative Movements in the Region varies from country to country. There are still managerial problems interlaced with lack of membership participation in the business affairs of these cooperatives. There is a heavy participation and administrative influence of governments in the functioning of these cooperatives due to excessive pressure on these institutions to serve state policies and programmes. As a result, cooperative institutions in many Asian countries are more akin to the policies of the government rather than catering to the needs and requirements of their basic constituents i.e., the members. It has also been observed that in a majority of cases cooperatives do not actually involve the members in decision-making. Cooperatives are "cooperative-centred" rather than their being "member-centred".

The major reason for establishing cooperatives was to free the poor and indebted farmers from the clutches of the traditional moneylenders who provided credit at exorbitant interest rates. The primary cooperatives, therefore, started out as credit societies. Later on other types such as marketing cooperatives were introduced. These were designed not only to facilitate the production process but also to increase agricultural production.

Most of the countries follow a three-tier system i.e., primary cooperatives at the village level, cooperative business federations at the secondary level and apex organisations at the national level. An exception is the Republic of Korea which has shifted to a two-tier system. Cooperatives are either single-purpose or multipurpose or specialised organisations. Agricultural cooperatives in Japan are also gradually moving towards a two-tier system. The current emphasis there is on amalgamation and removing the intermediary secondary organisations at the prefectural levels. The number and size of cooperatives in the Region have generally grown. However, in recent times, there has been a tendency to amalgamate or merge small primary agricultural cooperatives into larger ones in order to take better advantage of economies of scale. The smallness of cooperatives has been claimed to contribute to poor performance. The larger one is supposed to be more economically viable and efficient.

In spite of the drawbacks and difficulties faced by them, the cooperatives are the best-suited institutions for agricultural development in the Asian Region. To a great extent they are indispensable for accelerating the development in general and agriculture in

particular. The remedy lies in streamlining their activities in a manner in which they could increase their own resources and improve their technical and managerial capabilities to safeguard the interests of their members. Successful examples of cooperatives which have taken such initiatives are not lacking. Such streamlining would be possible only if the leadership responsible for cooperative promotion and development and for managing their day-to-day operations is responsible to the needs and aspirations of the farmers. Of special importance to cooperative functioning is the leadership provided by managerial and technical personnel competent to ensure maximum economic advantages to the producers and to ensure that the cooperatives are member-centred.

The staff and board members of cooperatives also lack managerial skills mainly due to inadequate training support available within the Movements. Due to limited resources at the command of primary and secondary level cooperatives, it has been difficult for them to sponsor their staff for training at higher level training institutions even within the country or abroad. The management leaders have very little opportunities to interact with their counterparts in other countries. Their understanding and appreciation of cooperative operations remains limited to their home situations. The need is to expand their horizons of knowledge and understanding to improve the quality of management of their own cooperative institutions. Such opportunities and exposures are considered absolutely essential if the staff and board members are to play effective and fruitful roles in the business activities of their co-operatives.

### **Intrinsic Values of the JAs**

Agricultural cooperatives in Japan [called JA – also referred as JA-Group or JA-Movement] are the most sophisticated high-tech managed cooperative institutions which, not only produce and market the needed agricultural products and services but also look after the members and their interests in their totality. The phenomenal rise of the Japanese post-War economy can safely be attributed to the hard and systematic work done by these JAs in consolidating people, land resources and producing the needed food and providing the needed services to the community at large. These services range from the 'cradle to the grave' and are closely integrated through well-knit linkages. The Japanese agricultural cooperatives stand committed to the 3-H Agriculture – Healthy, High Quality and High Technology.

The Japanese Agricultural Cooperative Movement had successfully introduced a number of innovations which are of great relevance to the Movements in the Region. Some of the interesting features of the JAs have been: Amalgamation of cooperatives to make them more economically-viable and service-oriented especially in the wake of pressures of strong competition; Farm guidance and better-living services to achieve a high degree of communication with the members and to enrich their social life; Protection of interests of farmer-members through mutual insurance, health care; Facilitation and provision of land lease and tax planning services to those who, on their own, due to certain limitations, cannot perform; Carefully planned and well-executed marketing and supply functions through specially-created and cooperative-owned holding companies; Production of quality consumer goods and services; Successfully interacting with the government through a process of policy dialogue and consultations; Education and training of farmer-members through a network of cooperative training and development institutions; Facilitating communication networking through internet and e-commerce; Ensuring higher economic returns to the farmer-members through a process of 'value-addition'; Encouraging women

and youth to form associations to compliment and supplement the work of JAs especially in taking care of and sustaining the interest of the young and the aged in the honoured profession of farming; Encouraging the farmer-members in controlling pollution to produce and market the healthy, safe and nourishing agricultural products to safeguard the interests of the consumers; and Extending technical collaboration with the developing movements on matters of mutual interest.

## **Success Indicators**

Based on the experiences of agricultural cooperatives at the primary, secondary and national levels in various countries of the Region, including Japan, the following indicators of success can be established:

- Government should give more importance and provide greater support to agriculture if agricultural cooperatives are to perform satisfactorily. Cooperatives are economic institutions involving a lot of people at the basic level and they strive to participate in national economic development efforts. They need to be promoted in the same way as other business enterprises;
- Cooperatives would function well with least government intervention. Discipline and good governance contributes much to the efficient operation of cooperatives. Cooperatives should be non-political and self-reliant organisations. Complete trust and confidence is necessary for cooperatives to succeed;
- Cooperatives should be managed in a more business-like manner – these are not social clubs or charity organisations. They need to professionalise their business operations by having dedicated and professionally-competent business managers and leaders;
- Cooperative’s guidance and active participation is valuable in the formulation and execution of farm production plans. Knowledge of scientific farming, provision of high quality inputs such as seeds, and mechanisation are important factors for enhancing productivity. Technological innovations that are pertinent to the changing needs of agriculture and the environment should be promoted. Introduction of new technology and methods of production is needed to develop agriculture;
- Cooperatives should provide advice to farmers on crops to plant which earn them higher income. Regular dialogues among farmers, cooperatives and market authorities should be undertaken to resolve problems. For success the farmers’ orientation should be on improving productivity and quality;
- Organisation should be led and managed by energetic, professional and dynamic persons. Business should be conducted in accordance with modern management principles and, at the same time, within the framework of Cooperative Principles and values attached to them;
- Elected officials viz., Board members including Presidents and Auditors should be paid. Honorary elected officials in several cases tend to be a drain on the resources of the cooperatives; and

- Improved packaging and marketing are important to enhancing the business operations of cooperatives. Agricultural cooperatives could be encouraged to participate as wholesalers in the market and hence, enhance the benefits of their members; and good grading and packaging add to the final price of the product and enable efficient handling and distribution. It has been found that cooperatives providing grading, packaging and marketing services tend to sustain and attract the interest of members.

These indicators can very well form the basic guidelines for the leadership of agricultural cooperatives elsewhere to introduce.

### **Problems Faced by the JAs**

The present stage of development of the Japanese agricultural cooperatives is the result of 100 years of experimentation, innovations and improvements. These successes are not devoid of impediments. Some of the problems encountered by the JAs have been identified as follows:

- Lack of ability for management and ability of planning and development;
- Lack of leaders' management ability;
- Lack of products development ability;
- Inadequate system of national/regional level research institutions;
- Insufficient study and research of consumers' needs and trends of market;
- Failure to establish brand names;
- Lack of development of distribution channels;
- Lack of understanding between processed foods and perishable foods;
- Inadequate linkages with the public information, events planning;
- Insufficient public relations in rural areas;
- Shortage of raw material faced when enlarging the business scale;
- No linkages with Regional Agriculture Promotion Plan [RAPP];
- Raw materials are expensive;
- Operations are based on season;
- Shortage of assorting commodities;
- JA factories tend to operate independently;
- No establishment of cooperation system with members for management.

### **Lessons Relevant to the Developing Agricultural Cooperative Movements**

Some of the most recent experiences of the Japanese Agricultural Cooperative Movement would indicate that the agricultural cooperatives have to be run on strong economic lines and direct their total efforts and service at the farmer-members/associate members who are the owners of the institutions and users of services. The very success of agricultural cooperatives in Japan is based on the process of evolution and strict adherence to the Cooperative Principles and belief in social and high ethical values. The development of services, which are provided by the cooperatives, is the result of high demands made by the members on their cooperatives for such services and the readiness of cooperative leaders to respond to the needs of the community. There is a continuous dialogue between the members and cooperative leaders to improve upon the services and retain and strengthen these institutions. These are discussed briefly below:

01 *Creation of a Corporate Identity:* With a view to bring unity within the agricultural cooperatives and to highlight the quality of JA products, the Movement adopted a Corporate

Identity – JA [representing the Japanese Agricultural Cooperative]. “JA” is printed on all products which are supplied through the agricultural cooperatives channels. CI “JA” is recognised as a strong commercial group just like any other CI and the brand is associated with fresh, healthy and good product.

**02** *Amalgamation of Agricultural Cooperatives:* The main aim is to strengthen the JA group and to make the cooperatives economically viable. There is an ‘amalgamation’ trend in the country – banks, telecommunication companies, automobile companies and other business houses are merging together to enhance and consolidate their economic strength. JAs have been following this programme with the following objectives: making the farming operations viable, making the cooperatives strong and viable, and facing the market competitions bravely through a strong collective bargaining power. The process has been slow and painful. Some of the problems faced by cooperatives in the process of amalgamation have been: a] Division of assets and liabilities; b] Placement of personnel after the amalgamation has been accomplished; c] Difficulties in arriving at consensus by the merging cooperatives; and d] Egoistic attitudes of local leaders. The entire process is based on consensus and with the agreement of all the members. Government directives or instructions have no place in the process.

While there are several merits of the process, a number of demerits have also been cited. Some of the drawbacks of the process of amalgamation have been stated as: a] Cooperatives will become too large to manage; b] Cooperatives will lose contacts with the members; c] Members will feel distanced; d] Bureaucratic tendencies will develop; e] Leaders due to their power and wide area of influence and business operations will get involved in local politics or may get involved in party politics; f] Failure of a large cooperative will result into huge economic losses, etc. Some of the amalgamated cooperatives have, however, shown good results.

**03** *Farm Guidance Activities:* This concept is not only to provide technical information to the farmers on cultivation of various crops but also to assist their farmer to increase their income. The farm guidance activity revolves around the total economic business of the farmer as well as of the cooperative. The farmer is guided on technical and economic aspects of particular crops e.g., higher income can be derived by taking up floriculture instead of rice, or cultivation of a special variety of rice, or a special kind of tomatoes, and by the application of methods of cultivation e.g., hydroponics cultivation etc. The main aim of this service is to enhance the income. Without provision of this service, the JA is not called as a multipurpose cooperative. Farm guidance is the key to the success and strength of the business of the JA. The service is linked with farm planning, provision of farm inputs and other supplies, and marketing of the ultimate product.

**04** *Regional Agricultural Promotion Planning [RAPP]:* In the production of food the JAs are the basic units. Each farmer produces a production plan, the JA collates these plans and produces a comprehensive regional plan. The municipal/city administration and prefectural governments and the national government develop their respective plans, and support the basic farmers with inputs, technical advice, equipment and recognition. The RAPP not only produces a comprehensive agricultural promotion plan, but also summarises a few other things e.g., the quantity and quality of rice, barley, corn, fruits and vegetables, the approximate requirements of fertilisers, farm chemicals, farm implements etc. This data enables the JAs to prepare the supplies and timing of these supplies.

05 *One-Village-One Product Concept:* The JAs have supported the members to specialise in their respective products. Members are encouraged to improve upon the product. The cooperatives provide all the needed technical and promotional support. These village products eventually become the specialised products of the respective prefectures. Some of the examples are: Nagano's Fuji oranges, Kyoho Grapes, Carnations and Turkish bellflowers, Enoki-take mushrooms, pickled apricots, beef cattle; Fukuoka's Persimmon fruit, Kochi's cucumbers etc. are the result of the application of this concept.

06 *Diversification of Agricultural Practices:* JAs are not restricting themselves to produce rice and vegetables alone. They have taken up other activities e.g., herbs garden, green tourism promoted by the JA-Sawada in Gunma prefecture. The members of this cooperative decided to pool their lands to create a very large herbs garden which has assumed importance for green tourism in the country.

07 *Farm Management Centres:* These technical units are created to provide all services and equipment related to farming to the farmer-members. They provide technical information on the equipment, their use, and maintenance. Farmers find it very convenient to obtain all their supplies and the required technical information and guidance from one single point.

08 *Producer-Consumer Contact Markets:* These are often called 'Morning Markets'. The JA provides space to farmer-members to sell their products [fruits, vegetables, flowers, potted plants etc.] directly to the consumers without going through the process of middleman or local markets. These are usually located in one corner of the JA or its "A-Coop" Store. The idea is also to give a chance to the busy citizen/consumer to come in direct contact with the producer – the farmer, thereby creating a kind of goodwill for the farming community and the JA.

09 *Chemical-Free Food/Agriculture:* The concept is to meet the growing demand for "Fresh, Healthy, Safe and Chemical-free Food". Farmers are advised to gradually increase the use of bio-fertiliser and avoid use of farm chemicals. Farmers who are engaged in dairying, hog-raising and poultry business are often confronted with the problem of disposal of wastes. These are natural bio-fertilisers which could enhance the quality and safety of farm products. Under this concept the farmers are entering into purchase and sale agreements with each other, thereby, increasing the economic transactions and producing the safe and chemical-free products.

10 *Women's Associations:* These are supporting the JA in many ways. These are informal groups but the structure is parallel to the JA structure – from the basic step to the national level. [There were 1,526 JA Women Associations with a total membership of 1.4 million as at the end of 1999]. These associations supplement and compliment the social and economic activities of the JA besides enriching the social aspects at the family level. They also contribute significantly in the operations of JA's "A-Coops" – large size departmental stores run by the primary cooperatives. In fact, these associations try to promote the business activities of JAs.

11 *Ethics and Good Governance in Agricultural Cooperatives:* By tradition the Japanese society respects the rule of law. The JA Board is responsible for the business operations, and in the event of economic losses, all the members are obliged to make good such losses. The elected officials e.g., board members and auditors are paid officials and their term of office is fixed. Decision-making and implementation process is based on the



principles of 'accountability' and 'answerability'. There is a good and harmonious relationship between the chief executive and the Board. The Chief Executive is the Managing Director of the JA [who sits on the Board and is naturally well-informed of the trend of discussion and the decisions taken]. There are good ethics within JAs and everyone in power in the organisation – small or big – takes care of the members. Care for the community is another important factor for the success of JAs. These are: taking care of the aged through welfare homes and supply of their food and household requirements, medical facilities, establishment of child nurseries etc. These services are instituted because these are the needs of the community and the cooperatives have not to seek the permission of the government or any other authority to initiate such facilities and services except for obtaining the approval of their members. The JAs have good working relationship with the local governmental authorities and other non-governmental organisations.

12 *Open Membership:* The JAs have opened their doors to farmers and non-farmers in the form of Full Members and Associate Members. In the provision of services to both the categories there are no restrictions – the only difference is the right to vote. Associate members are not qualified to vote. Since the cooperatives are community/village based, it is the duty of the cooperative to serve all the members of the community. Also the inclusion of Associate Members helps increase the capital base and business operations of the JAs. In many countries, agricultural cooperatives do not serve the non-members and do not have the practice of formally accepting non-members as associate members.

## **Conclusion**

The agricultural cooperatives in the Region have been developed on various models which were suited to the national priorities and political shades of governments. They have, however, performed well to satisfy the needs of farmers and governments. They, even upto the present times, are the key institutions to provide credit to the farmers and to market their products. Even the governments have been making use of these institutions to distribute essential items among the rural areas. They have served the farmers well. However, in the wake of the demands and pressures of open market economy and the anxiety of governments to reduce subsidies, these cooperatives have been confronting a number of difficulties e.g., they do not enjoy the status of priority in the eyes of the governments, they are left alone to fend for themselves because the governments believe that cooperatives are autonomous and therefore they need not be encouraged by them; members have also lost faith in them because these institutions are not able to provide 'easy and cheap' credit because there has always been a paucity of funds at the cooperative level, and members have begun to look for alternatives to obtain farm inputs and other services from the open market.

However, the experiences of the Japanese agricultural cooperatives have demonstrated that members still continue to have faith in them because agricultural cooperatives provide them with all the services that are needed by the farmers and the community at large. To counter the negative aspects of the open market, these cooperatives have formed themselves into a strong commercial venture under the CI of JA.

Amalgamation of primary level cooperatives and other institutions at various levels have infused greater strength in them to compete in the open market and protect the interests of their members. There is a strong policy dialogue with the government, and make their presence felt at the international level especially in sectors like the WTO, environment protection and cooperative assistance.

Of special significance is the farm guidance services provided by the agricultural cooperatives. In some cases, these services are grossly misunderstood as the mere farm extension services. Farm guidance is actually a combination of farm extension and farm technology reinforced with the economic content. The service is aimed at enhancing the economic power not only of the farmers but also of the agricultural cooperatives. Yet another important lesson from the Japanese agricultural cooperative system is the avoidance of competition between the business federation and its affiliates. The federations in this case try to promote the business of their affiliates by giving them all support in production, marketing and warehousing etc. There are a number of lessons which can learnt from these cooperatives which could be of some interest and benefit to other Movements in the Region.

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