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CONSUMER COOPERATIVES IN SRI LANKA

- *A Critical Study.*

By

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ABBREVIATIONS.

AV	Audio Visual	MATCOM	–Material for Coop Management Training
BOD	Board of Directors	MARKFED	– Sri Lanka Coop. Marketing Federation
CAP	Competency Analysis Profile	MPCS	Multi Purpose Coop. Societies
CCD	Commissioner of Coop. Development	NGO	Non-Governmental Organisations
CEC	Cooperative Employees Commission	NICD	National Institute of Coop. Development
CEMAS	– Cooperative Educational Material & Advisory Service	SCC	Swedish Coop. Centre
CMPP	Cooperative Member Participation	TCCS	Thrift & Credit Coop. Society
COOPFED	– Consumer Cooperative Federation	WTO	World Trade Org.
DACUM	– Develop a Curriculum		
DCC	District Cooperative Council		
DCCD	Deputy Commissioner of Coop. Development		
GM	Genetically modified		
ICAROAP	– International Cooperative Alliance Regional Office for Asia & Pacific		
ILO	International Labour Organisation		

EXECUTIVE SUMMARY

1. SOCIO ECONOMIC CONDITIONS OF SRI LANKA.

Sri Lanka being a small island with a population of 19 million people enjoys 89th position among 173 countries in the Human Development Index ranking. It has achieved high rate literacy, life expectancy and health indicators due to the socially oriented policies of the succeeding governments.

Although the economy of Sri Lanka has got into problems of negative growth during 2000-2001, it has been able to recover to maintain nearly 5% growth at present in spite of the government change in 2004. However, it would be difficult to expect rapid growth due to the new policies of the government emphasising on agriculture, employment programmes, poverty alleviation programmes and the related subsidies. Peace process too has got into stalemate position and there are uncertainties in that direction resulting in a slow pace of investments inclusive of foreign direct investments on long term basis.

Economically, the government is committed to follow open market system and work within the globalisation framework due to the commitments made to WTO and international financial institutions.

2. PLACE OF RETAIL INDUSTRY IN THE ECONOMY.

As a result of open market policies adopted in 1977, the scarcities of consumer goods vanished within a short period and there was boom for imports and domestic exchange of food and other consumer goods. The government started privatising its state agencies which dealt with imports and collection of local consumer commodities, resulting in a new generation of domestic and international marketing agencies taking over the supply channels gradually. Natural monopolies such as aviation, telecommunication, petroleum distribution too were privatised gradually, allowing new corporate players to enter into the market. Taxation was changed drastically allowing foreign and local companies to start new ventures under the Board of Investment (BOI) projects, which created markets locally and overseas. Food processing companies such as Kargills, Prima and Monsanto too entered into the country.

Consequently, the wholesale and retail trade had a 5.5% growth during last decade of the last century which lost the momentum in 2001. However, with the change of government, it went up again to 7.3% in 2003, recording a better growth than the GDP. Import of consumer goods had a growth rate of 11.2% in 2003. Domestic consumption in real terms grew by 6.1% in 2003. Growth in 2002 was 6.5%.

During this time, at least 5 supermarket chains, all domestic ventures, entered into the retail market in many cities in the country. In addition, international food chains such as Pizza Hut, KFC, and McDonalds too have entered into the market.

Another development is the growth of village groceries replacing the cooperative retail outlets at the village level, which are run by family enterprises.

Advertising has played a major role in changing the life styles of the population and accelerating the consumerism in the community.

3. STATUS OF CONSUMER COOPERATIVES IN SRI LANKA.

Consumer cooperative movement in Sri Lanka, which was visible during the Second World War had changes in 1957 and 1971 with two reorganisations with the concept of Multi Purpose Cooperatives, that are mainly consumer business organisations. With the amalgamation of small cooperatives in the area into a large primary cooperative called Multi Purpose Cooperative Society (MPCS) in 1970, retail distribution system has been more systematised to cover the entire island with 6854 retail shops managed by 305 MPCSs.

In addition to MPCSs, there are also Estate Stores Cooperative Societies (62), Thrift and Credit Cooperative Societies (28), School Cooperative Societies (887) and few single purpose consumer cooperative societies (10), which are engaged in retail business. Their influence in the retail market is marginal.

Consumer sales represented 60.4% of the total business of the MPCSs in 2002. Fuel stations which are another consumer activity represented another 17% of the total business which made MPCSs mainly consumer oriented cooperatives. The total turnover of consumer business by the MPCSs in 2002 was Rs. 20868.9 million, which made them the largest retailing group in the country.

The MPCSs have three types of shops: traditional village convenient stores, self service shops and supermarkets. Counter sales system is still adopted by convenient stores which are more common to villages. Specialised shops are very few. So as the department stores. Self service is a creation in 1970s, which gained popularity during post open market era. Cooperative supermarkets are more an extension during 1990s, following the pattern of private supermarket chains. They have adopted a name in unison as Coop City, following the Food City supermarket system. There is also traditional belief against self service shops still prevail, such as the notion that it may lead to shop lifting etc.

In terms of competitiveness of cooperative retail industry, village groceries (39.90%) owned by small entrepreneurs have overtaken cooperative retail shops (22.27%). As the supply sources are numerous and divergent, the competition is severe among the retailers. Franchise given to village grocers by the CWE has also boosted the private retailers. Village grocer is rated as high in effective sales force against cooperatives. Stock is another factor they have gained against coops. Still the consumers want cooperatives as price stabilising factor and extend patronage to keep them alive.

Shop locations of cooperative shops remain more or less the same as established during 1970s which has become a constraint for expansion. Population migration pattern has

experienced changes since new developments in the economy under liberalisation. Cleanliness and the observance of sanitary conditions in the cooperative shops are not so satisfactory in comparison to private supermarkets or self service shops. Assortment is limited in cooperative shops due to concentration on the Samurdhi recipients and lack of sufficient working capital. Private sector suppliers have been the main source of supply of merchandise to cooperatives now as against government agencies in 1970s.

Wholesale business is still substantial having 37% of the total sales in 2002. The stock turns of the MPCSSs are between 1-2 per month, which is low considering the limited capital they have.

Sales promotion strategies of the MPCSSs are very weak at present as they depend on the Samurdhi recipients as the main clientele. Branding has been tried in different occasions by few national level organisations with some success, but failed to expand due to resource constraints. Cooperatives have not been able to change the shopping hours to match the change of life style of the consumers; hence there is a decline in the number of common consumers shopping in cooperative shops except in the cooperative supermarkets. Pricing is another factor which has not been used by cooperative shops to their advantage. This is due to centralisation of authority, erratic costing and non observance of proper pricing policy.

Cooperative shops have tried to follow the trends in the private sector in designing the floors and display systems. As these shops have been forced to use cheaper fixtures and gondolas, it has become difficult to compete with the private sector on that count.

Few cooperatives have been able to pay dividends on shares and participatory rebates which is an additional attraction over the private shop keepers.

Out of 305 MPCSSs, 179 incurred losses during 2002 (59%). The business has gone down to the level of 1995.

MPCSSs maintain the hierarchical structure created in 1970s, with national federations and unions at the top who were supposed to be the suppliers and marketing organisations. In the consumer cooperative sector, Sri Lanka Consumers Cooperative Federation (COOPFED) is very weak at present, and unable to be the supplier to cooperatives. Accumulated loss by 2002 is Rs. 44.3 million. The other supplier, MARKFED has an accumulated loss of Rs. 31.8 million. These organisations have not tried to become network organisations that support joint buying as in the case of Japanese consumer cooperative unions.

Governing system in the MPCSSs is a representative democracy, but actual stakeholders of the cooperative are not represented for want of special provisions in the by laws. Hence, politicisation has crept into the organizations, and there is a constant clash of interest between the leaders and the organisations. This has led to negative growth of cooperatives and also the decline.

Out of 5.6 million individual members, 3.74 million are members of MPCs. In terms of employees, 30,034 employees are with the MPCs out of a total of 40,585. However, the MPCs do not have a systematic approach to human resource development to make these stakeholders more skilled. They depend on the traditional institutions such as National Institute of Cooperative Development, National Cooperative Council and the District Cooperative Councils.

4. NATIONAL POLICY AND LEGISLATION ON RETAIL INDUSTRY AND CONSUMER AFFAIRS:

Except some remarks made by the Ministers in charge of cooperatives in the parliament from time to time, there has not been a declared policy on cooperative anytime by the government. As the cooperative movement has been patronised and nurtured by the government, it would not have felt the need as at present, when the subject of cooperation has been devolved into provinces. Previous government as well as the present government have not given any role for the cooperatives to play in the economy in their election manifestoes.

Consumer Protection Act passed in 1979 has been amended few times and the current legislation of Consumer Affairs Authority Act of 2003 has replaced all these amendments. Although it has been formulated to promote effective competition and the protection of consumers and also to regulate the internal trade, there are misgivings identified by the legal experts for not having effective controls over monopolies and restrictive business practices. Up to May 2004, there have been about 800 complaints to the newly established Consumer Affairs Authority and are in the process of hearing.

In addition, as a part of legislation, it is also envisaged to organise strong consumer organisations which would support the actions of the Authority in protecting the consumers, but they are yet to be formed. The existing NGOs on consumer protection are weak and do not have influence, except in the case of environmental protection organisations.

5. COOPERATIVE LEGISLATION AND OTHER LEGISLATIONS AFFECTING THE GROWTH AND DEVELOPMENT OF CONSUMER COOPERATIVES.

Cooperative legislation by and large remains the same as of 1970s when the socialist government wanted to pursue a different path of economic development. Sri Lanka has a common legislation for all types of cooperatives. The modifications made during 1980s and 1990s as well as the Statutes in the provinces have only withdrawn certain powers of the Registrar, but creating more chaos for replacement towards control by the members. After the devolution of the subject of cooperation to Provincial Councils in 1987, the Provincial Councils formulated their own Statutes on Cooperatives, following the early

legislation passed in 1972. These Statutes have varying degrees of autonomy given to cooperatives to decide on their business by the membership.

Presidential Commission on the Cooperative Movement of Sri Lanka that studied the trends of cooperatives and the legislation, has made lengthy recommendations on the changes that are necessary for legislation, which has been again scrutinised by a Committee appointed by the Central Minister of Cooperatives. The Committee has recommended that, the legislation should incorporate the ICA, Identity Statement on Cooperatives, and also emphasised the need to provide for the election of major stakeholders to manage cooperatives. In keeping with the open market system and related globalisation process, it was suggested that cooperatives should have legislation more in line with the Companies Act, while retaining the character of cooperatives.

An attempt has been made by the National Cooperative Council of Sri Lanka to support the formulation of a national policy on cooperatives, which could be the guiding document for the Provincial Council legislation as per the Constitution of the country. Basic elements for the document have been identified, and is still in the process of finalisation.

6. CONCLUSIONS AND RECOMMENDATIONS.

Globalisation process has provided cooperatives in Sri Lanka to have access to global market for their commodities, technology and partnerships with other enterprises including cooperatives, but the opportunity has hardly been used, excepting the exchange of experiences. On the other hand, translational companies have used the opportunity to enter into the domestic market and provide experiences to private enterprises to follow the trends in the world market. WTO agreement with Sri Lanka has strengthened this process.

After making a critical study on consumer cooperatives in Sri Lanka, following recommendations are made:

- Present inadequacy of working capital for consumer business should be met with the internal funding of the cooperatives, giving preference to shares, consumer deposits, debentures and disposal of unutilised assets;
- Current hierarchical structure which is detrimental to take quicker business decisions by the actual stakeholders of consumer business, should be made flat and network organisations, giving more powers to branches of the MPCs to manage their retailing;
- Joint buying processes by the members, branches and the consumer cooperatives should be introduced to have more volumes of business to become purchasing agents for consumer members;
- Procurement arrangements should first be made with the local membership on the basis of an efficient and dynamic merchandising policy and search for other sources in the open market through an efficient market intelligence system operated by cooperatives;

- Consumer cooperatives should adopt Management by Objectives (MBO) concept for managing functions of the cooperatives by the teams of functional groups;
- Sales promotion strategies should be focussed more on the community in the area using their social and cultural events supported by constant information flow on the cooperative society they are attached to and using incentives to frequent buyers and active members;
- Pricing policy should avoid level pricing and follow the techniques of pricing as adopted by the private retailers such as supermarkets;
- Formulation of efficiency norms for retail business is essential as a guidance for consumer cooperatives to follow;
- Consumer cooperatives should adopt an internal HRD system covering members, committee members and the employees which should be systematic and need based enough to develop skills for them to play their roles in a competitive market environment;

The government should provide support services by having national policy, revising the legislation to create a level playing field for consumer cooperatives, re establishing consultancy services, auditing services and other statutory functions which are to be operated by trained officials for the purpose.

1. COUNTRY PROFILE.

Physical features and Climate

Location

Between 5.55 and 9.50 of North Latitude
 Between 79.42 and 81.53 of East longitude
 432 km (270 miles) North to South
 224 km (140 miles) West to East
 • Highest elevation : 2524 metres (8281 ft.)

Area

Total area : 65,610 sq. km.
 Land area : 62,705 sq. km
 Inland waters : 2,905 sq. km.

Climate

Low country : min. 24.4 C max. 31.7 C
 Hill country : min. 17.1 C max. 26.3 C
 Annual rainfall (Average) mm. 2030 (2003)
 No. of rainy days 162 (2003)

Key social indicators

Population and vital statistics

Mid year population ('000) in 2003: 19,252

Age distribution

0 - 14 yrs. : 5,125
 15 - 64 yrs. : 12,894
 65 yrs. And over: 1,233

Urban population : 22.8%

Population density (2003) : 307 persons per sq. km.

Crude birth rate (2002) : 19.1 per '000

Crude death rate (2002) : 5.8 per '000

Rate of natural increase (2002) : 13.3 per '000

Infant mortality rate (2002) : 11.00 per '000

Dependency ratio (2003) : 49.3%

Average household size (2002) : 4.2

Expectation of life at birth (1996-2001)

Male : 70.7 yrs.

Female: 75.4 yrs.

Literacy rate (1994)

Overall : 90.1%

Male : 92.5%

Female: 87.9%

Income distribution

Gini coefficient (2003) : 0.48

Poverty

Population below US\$ 1 a day (1995) : 6.6%

Population below US\$ 2 a day (1995) : 45.4%

Mean income (2002) : Rs. 13,038 per month

Median income (1995) : Rs. 8,387 per month

Average energy consumption over person per day (2002) Kilocalories : 2120

Percentage of poor households : 23.9

Human development index

Rank among 173 countries (2002) : 89

Employment

Employed persons ('000) (3rd quarter 2003) : 6,973

Agriculture : 35.0%

Industry : 21.7%

Services : 43.3%

Govt. employees (2003) : 1,043,209

State sector : 45.8%

Provincial public sector : 29.5%

Semi govt. sector : 24.7%

Transport

Length of national roads : 11,650 km.

Length of railway route : 1,447 km.

Water Supply and Sanitation

Access to safe drinking water : percent 70

Access to pipe borne water : percent 31

Electricity

Households with electricity : percent 68

Per capita electricity consumption : kwh / per year 322

Communication

Telephone density

Fixed lines per 100 persons : 4.9

Including cellular phones : per 100 persons 12.1

Internet and e mail per 100 persons : 4.4

Average population served by a post office : 4100

Health

Hospital beds per 100 persons	: 3.8
Persons per doctor	: 2104
Nurses per 100,000 persons	: 123
Govt. expenditure to health	: % of GDP 1.56

General Education

School density (area covered by a school)	: sq. km. 6
Pupil/teacher ratio (govt. schools) No.	: 21
Primary net enrolment ratio (age 5-9 years)	: 97.2%

Availability of Housing

Category	Percentage of households			
	1981/82	1986/87	1996/97	2003/04
Brick or cement block walls	26.2	35.1	62.5	75.3
Cement, tiled or better flooring	52.6	58.8	74.1	81.5
Tiled or asbestos roofing	46.5	54.7	73.2	78.8
Own well or pipe born water				
Inside home	38.7	32.6	48.9	62.2
Water seal latrine	31.9	43.7	70.1	78.4
Without latrine	29.9	16.9	6.5	5.4
Electricity	15.8	26.5	56.8	73.9
LP gas for cooking	1.1	2.6	10.8	14.5
Firewood for cooking	n.a	95.1	86.6	83.1
Radio	60.7	67.2	73.6	77.2
TV	3.8	19.6	50.6	68.2
Sewing machine	30.7	37.2	41.5	44.9
Refrigerator	2.98	8.1	16.8	28.7
Telephone (land or cellular)	0.9	1.4	4.5	23.9
Motorised transport	4.4	8.5	15.4	25.4

Source: reports of the CFS Surveys – quoted in the Annual Report of Central Bank of Sri Lanka.

Key Economic Indicators - 2003**Demography**

Mid year population (provisional) ('000 persons)	: 19,252
Growth of mid year population (per cent)	: 1.3
Population density (persons per sq. km.)	: 307
Labour force ('000 persons)	: 7609
Labour force participation rate (percent)	: 48.6
Unemployment rate (% of labour force)	: 8.4

Output

GDP at current market prices (Rs. Billion)	: 1760
GNP at current market prices (Rs. Billion)	: 1737
Per capita GNP at market price (US\$)	: 935

Real Output (percentage change)

GNP	: 6.4
GDP	: 5.9
Sectoral classification	
Agriculture	: 1.5
Industry	: 5.5
Services	: 7.7

By the year 2000, economy of Sri Lanka was losing the momentum and had a negative growth of -1.5% of GDP and -1.3% in 2001. With the change of the government, several measures for arresting the trend was taken along with economic reforms which paid dividends by achieving a positive growth rate of 4.0 for GDP and 4.2 for GNP in 2002. It is expected that GDP growth rate for 2004 would be 5.0 and 5.5 in 2005. During the UNF government, the budget deficit was reduced from 10.8% in 2001 to 8.0% in 2003. The donor agencies demand further reduction during 2004, but it would be doubtful considering the expenditure for the employment programmes and subsidies announced by the new government. In order to meet the cash flow of the government, the government is now envisaging selling out the remaining shares of the major enterprises such as Sri Lanka Telecom and Sri Lankan Airlines.

The government was able to sign a MOU with the Liberation Tigers of Tamil Elam, a militant group fighting for a separate state and achieve a long term ceasefire. This has helped tremendously to attract foreign aid and investments. Structural reforms in the economy included opening of public sector monopolies such as petroleum and telecommunication to private sector. Trade, telecommunication, manufacturing, trade and port services as well as aviation contributed to achieve this. Domestic consumption too had a growth of 6.1% in 2003. Consumer demand grew for consumer durables basically.

With the change of government in April 2004, the momentum of growth has got somewhat retarded for want of political stability due to formation of minority government and also due to confusing economic agenda. New United Peoples Freedom Alliance (UPFA), although proclaimed a manifesto for retaining the open market economic policies, there has been a talk from the leaders on reversing to mixed economy where state enterprises would play a leading role in the future. Few privatisation programmes such as railway have been reversed and also some programmes for the revival of former trading corporations such as Ceylon Transport Board have been attempted to. The strategy of "Sri Lanka first" is yet to be introduced though announced. In regard to cooperatives as a vehicle for development, there is no mention in the statement.

New government has declared its intention to provide subsidies to needy people further, and fertilizer subsidy has already been given. Subsidies and concessions to local industries are still to come. This is a slight deviation from the policy of the previous government. However, there is no clear agreement among the partners in the Alliance which created the new government on these policies. Recently, the finance minister has stated that he would be happy to privatise remaining government monopolies such as Ceylon Electricity Board and Ceylon Petroleum Corporation which have created debates among the ranks.

Previous government has entered into agreements with the SAARC countries and also negotiated a Free Trade Agreement with the USA which helped the country in integrating into globalisation. Current government is yet to respond to these commitments, and there are conflicting ideas within the Alliance on macro economic management. As the Sri Lankan trade and economic policies are well integrated into outside financial arrangements and foreign trade, any move to go back to 1970s would be disastrous. Even at present, Rupee value in the international market is declining in an alarming proportion, which has already caused higher prices in imported consumer products and even services.

Economic management under the new government has not had many changes still, but a significant change was the appointment of a new superstructure for overseeing the management of several para statal enterprises. It is expected that this organisation would monitor the progress of semi state enterprises, while allowing them to have their own management bodies such as boards of directors.

2. PLACE OF RETAIL INDUSTRY IN THE ECONOMY.

During the 1970-77 government, which pursued socialist policies in economic development, consumer market was stagnant and one could call it a distribution economy rather than a market economy. Scarcities caused, for want of import of many essential food items, daily family needs were restricted to rationed items. Although the local food industry was encouraged to perform better through subsidies and floor prices determined by the government, the stocks created were insufficient to meet the demand of consumers. Many imports were monopolies of the government which carried through various government trading companies pioneered by the State Trading Corporation. This situation has led to the fall of the government in 1977, which replaced with a new government who believed in the open market economy and supportive economic policies.

The governments those came into power after 1977, adopted open market economy for which a transition was made over two decades. During this time, they adopted several measures to restructure the economy, and during the UNF government of 2001, a special ministry was set up to undertake economic reforms. Strategies adopted during this period can be summarised as follows:

- Lifting price controls and deregulation of industries and marketing organisations;
- Policies towards lifting exchange controls and allowing currency to float in the open market;
- Opening import and export trade for the benefit of overseas companies to enter;
- Privatisation of natural monopolies owned by the state such as power, telecommunication, transport, and road network;
- Opening of social enterprises such as education, health etc. to private sector companies including overseas companies;
- Invite overseas companies for direct and investments offering incentives;
- Introduce structural adjustments specially in the areas of taxation, financial system, and administrative machinery of the government;
- Revision of inheritance laws;
- Reduce social welfare programmes while terminating concessions provided.

The effects of such strategies were evident during this period which had positive and negative results on the civil society. Some of the effects are:

- Entrance of multinational and trans-national companies to essential services such as gas industry, power generation, telecommunication, transport and agriculture: Shell Co., Cargills, Aggreko, Caltex, Indian Oil Co., are some of them.
- Direct and indirect investments by overseas companies such as Prima, AIG, Life Insurance Corporation of India, Taj Group.
- Marginalisation of farmers, artisans and small scale entrepreneurs due to incentives provided by the government for private sector and overseas companies to engage in commercial agriculture which is export oriented, entrance of garment companies and other rubberised product companies through Board of Investments (BOI) projects and importation of goods with better finish and low prices.

- Introduction of machines in the fields where manual operations are common such as small and medium scale industries.
- Emergence of family enterprise system: with the growing consumerism and the availability of merchandise which is imported and locally produced, the families saw the opportunity to enter into the market as entrepreneurs and started using their dwelling houses and small shops for business run by the family members. Food industry is mainly dominated by these entrepreneurs.
- Dictation of prices by the trans-national companies: Shell Company has the ultimate say in gas prices; Prima Company determines the price of flour etc.
- Promotion of over consumption through advertising: Private sector companies generally spend 20% of their total company budget for advertising which is charged from the consumers.

The open market economy had several effects on the cooperative movement of Sri Lanka:

- Cooperatives are losing secured trade in the market with the withdrawal of state food distribution systems;
- Loss of subsidised capital from the government due to withdrawal of agricultural subsidies and bank guarantees on credit;
- Deregulation of commodity prices affecting the price mechanisms in the market;
- Withdrawal of restrictions on the imports and exports and the consequential closure or privatisation of state corporations and the quotas causing difficulties for cooperatives to procure commodities at competitive prices;
- Decline in margins and profitability causing many cooperatives liquidity and solvency problems;
- Gradual withdrawal of government from cooperatives resulting in democratisation and emergence of new types of cooperatives;
- Emergence of micro enterprise systems at the rural level posing a threat to small cooperative enterprises;
- Currently enforced archaic laws affecting competitiveness of cooperative due to restrictions on business decision making;
- Entrance of modern management systems through multi national companies and partnerships that influence cooperatives to follow the path or perish;
- Inability on the part of the financial cooperatives to mobilise capital for better productivity in spite of increasing opportunities and becoming easy prey for private financial institutions to grab excess capital of cooperatives to their benefit, but at a high risk to cooperatives; recently with the collapse of Pramukha Bank, some 300 million Rupees are at stake.

With the gradual withdrawal of restrictions on the imports and privatisation of many government enterprises with the encouragement given to competition in the market by many local and foreign players, consumer market grew in an accelerated manner.

Central Bank in its annual report for 2003 provides details of the growth of wholesale and retail trade in GNP at constant prices (annual percentage changes as follows:

	1990-2000	2001	2002	2003
Wholesale and retail trade	5.5	-6.7	5.6	7.3
Imports	7.6	-10.7	8.4	11.2
Exports	10.4	-8.0	2.0	3.5
Domestic	2.5	-2.0	3.9	4.4

Consumer trade was having fluctuations in keeping with the economic growth. Year 2001 had a negative economic growth for the first time since the Second World War, which affected the consumer market tremendously. With the restructuring of economy undertaken by new government from December 2001, things changed for the betterment of the consumer trade. The growth by passed the average growth during the last decade of the 20th century. Central Bank Annual Report for 2003 says *“growth was supported by all three demand components, (domestic consumption, investment and exports of goods and non factor services) with strong consumer demand, expansion on investment activity and recovery in exports.”* It further states, *“the relative share of consumption in the aggregate demand remained high, at about 84%, due to the rising private consumer demand that offset the declining government consumption as demanded by the on going fiscal consolidation strategy. Domestic consumption at constant prices rose by 6.1% in 2003 benefiting from rising average per capita real income and increasing tourist arrivals, which rose by 27%.”*

Domestic consumption in real terms grew by 6.1% in 2003. The growth in 2002 was 6.5%. Higher increases were in consumer durables.

The government continued to follow gradual withdrawal from the retail market in the country by introducing a restructuring programme for its main retail chain- Cooperative Wholesale Establishment (CWE), whereby the private sector was given the management of the chain, while the government keeping a marginal share holding. Consortium formed by the private companies invested nearly Rs. 700 million in the CWE. In addition, the government started privatising its fuel stations by selling majority of them to Indian Oil Corporation. Petroleum Corporation too was earmarked for privatisation. New government elected in April 2004 would continue with the policy it appears, in spite of the declaration made indicating that there would not be sale of state enterprises. Only the Railway Authority is earmarked for reversal to old state agency management.

In the process of privatization, it is expected that there would be an efficient consumer service at a reasonable price. They are also expected to have access to greater variety of services at a competitive choice. However, the experience of LP Gas, fertilizer and other commodities has shown a contradictory trend by having increases in prices.

It was expected that opening the market for more players would bring about competition and hence benefit would reach the consumer. However, there has been a marginal change in the situation except changing hands in the monopoly from the government to a private enterprise, which basically was a foreign company. As in the case of Gas, the conditions were contradicting the rules of the open market.

After collapse of Cancun talks of WTO, multilateral agreements would get replaced by bilateral free trade agreements with others such as India, which would have different repercussions in the market. Consumer market would have limited varieties for the consumer, at the cost of domestic producer. During Cancun talks, Sri Lanka however, supported the US proposals.

Sri Lanka has not yet become a popular destination for trans-national retailers like China or India except fast food chains such as Pizza Hut, KFC and McDonalds. Trans-national retail chains such as Wal Mart and Carrefour are yet to come to Sri Lanka, and they have not tried even a franchise arrangement. Instead, they are reaching India now. The main reason is the size of the consumer market and the purchasing power of the consumer. Although Sri Lanka has achieved a per capital income more than US\$900, well over other South Asian countries other than Maldives, the size and the possibilities of expansion that mattered for offshore companies.

On the other hand, new domestic retail chains have emerged during last five years, such as Cargills Food City chain and CWE chain that have spread to many cities and others such as Keels supermarket, Park & Shop and Kings Supermarket are confined to Colombo and suburbs. These supermarkets are well adapted to the local conditions and respond to the community needs and the changing political environment in a positive manner.

In spite of the changes in the retail market with the influence of supermarket chain system, traditional village fair system still exists through out the country including cities like Colombo. This system was originated to serve the producer consumer exchange of agricultural products at the village level. They existed even during the 2nd World War, serving the producer and consumer equally. Normally, these fairs are opened once a week at identified open spaces having road access. The tradition has shown the need to organise it throughout the week, so that the traders could go from one place to the other carrying products purchased from the earlier fair. They are basically mobile traders, operating through Lorries which serve them as their living quarters to a certain extent. Early days of the system, the transport was by bullock carts. Jaffna Peninsula has a system of village stalls which operate early morning hours at a specific place in the village where the traders visit and collect village produce for marketing. They also sell other things in these stalls for couple of hours a day. Southern part of the country does not have such a system, but organised on weekly basis.

During recent times, cohesion has emerged between the urban supermarket system and the village fair system, due to arrangements to purchase agricultural products by the supermarkets on wholesale basis as supply to their retail chains. The normal supply arrangements of the supermarkets are through their own registered suppliers.

Another phenomenon in the retailing is the emergence of family shops in the rural and semi urban areas. Food stalls run by families are popular in the urban areas rather than grocery shops, due to separation of pre cooked meals from the organised formal retail

shop system. On the other hand, except the cooperative retail shops, other shops such as family shops are available in the villages. In urban and semi urban areas, there are also part time shops operated by day workers in offices and companies, which are open in the evenings normally.

E Commerce is another retailing method which has been introduced by few companies recently, but still to gain ground. Some of the banks have adopted such self banking by the consumers through electronic machines that have been networked throughout the Island. They have gained better market share over the other conventional banking systems, as the arrangement could provide 24 hour service for 365 days. Although the initial investment has caused considerable expense to the bank, the transaction cost would become lesser eventually.

In the case of retailing, use of Internet for offering discounts and maintaining exclusive clubs such as Nexus has been introduced recently. As the connectivity of Internet is still limited, affluent consumers are basically using the facilities for their daily work, hence consumer services to such clientele has become feasible. Advertising through Internet has been confined to consumer durables and real estate still, but it is expected to expand into retailing during near future.

Pre ordering and delivery system for households was existing for nearly 50 years now, but never gained ground with the consumer due to inefficient product information to customers and the emergence of supermarkets opened daily during extended hours. MARKFED started a home delivery system during 1970's which was popular among housewives in Colombo, but was confined to essential food items and vegetables etc. Later, the arrangement was terminated with the decline of business.

Mobile retailing through trucks, vans and specially made shops on wheels has not been popular either, except in fast food industry. Groceries have not been sold in such a manner except in some few instances of village fairs and discounted sales during festival times. Wayside selling along the highways by vans and lorries during specific hours is becoming a phenomenon in Colombo city, which would depend on the lenience shown by municipalities and road development authorities. These arrangements offer cheaper prices, but not the quality, due to less overheads and fast selling of the items on daily basis. The stock turnover of these items is more than 20 per month, whereas average retail shop or a supermarket would not have more than 4 to 6 per month. Therefore, the profitability and the productivity for the investment in such mobile systems are higher than conventional retail shop system.

Consumer behaviour in Sri Lanka is biased towards branding and they have become loyal to their tested brands. Still, due to the curiosity of the consumer, and the availability of limited number of brands they tend to test new products. They basically are driven by electronic advertising. However, there is an age old relationship between the consumer and the branded products in the market. Sri Lankan consumer is also quality conscious to a greater extent after experiencing two decades of open market system. They haven't

gone to the sophistication of generic products without branding as in the case of Scandinavian or European consumer societies.

Due to the decline of population growth, the ageing population is on the increase, and the nuclear family system has taken root in the country. Elders' homes and resorts are mushrooming and many retired persons opt to go to these establishments for spending rest of their lives. In some cases, urban working children too prefer to maintain their parents in such a place, as they could not afford to keep them in the house. Another result is the decline in the availability of domestic help for two reasons: exodus of housemaids to Middle East countries and decline in the population growth. This change has caused changes in food habits and living styles. Many people prefer to go into condominiums and also self contained flats with all services. Eating out has become a routine and the people are also engaged in more than one vocation to gain more income.

Convenience has become the keyword for consumerism in Sri Lanka. Disposable plates and serviettes, take away fast food, readymade clothing and shoes, ready to eat products, canned food, home services etc are some of the items for convenient life of consumers.

Another phenomenon that is gaining ground is the one time use of items. Three in one (coffee, milk & sugar), shampoo and herbal medicine sachets for one time use, washing powder sachets etc. are some of the examples. This arrangement suits the low salaried people and the ones who prefer smaller packets for easy transport and storage. The trend could be more visible in future.

Standards certification such as Sri Lanka Standards (SLSI) and international standards (ISO) is yet to get popularised among average consumer as the majority are rural and semi urban families.

3. STATUS OF CONSUMER COOPERATIVES IN SRI LANKA.

(i) Growth Trends:

The first consumer cooperative society in Sri Lanka was established on 24th October 1927 at Passara in Uva Province which was known as Passara Group Estate Workers Consumer Cooperative Society. The Estate management made arrangements to pay the cooperative society for the goods supplied to member workers by deducting from their pay sheets which was convenient to both parties. The concept became very popular and by 1942, there were 52 such Consumer Stores Cooperatives in the tea estates.

With the outbreak of the Second World War, there was a food scarcity and a famine experienced by the country. The government introduced a rationing scheme for essential food items and decided to distribute through Stores Societies. As a result, the concept was expanded to cover the entire community and encouraged formation of such societies in all villages. By April 1945, there were 4004 such cooperatives in the country. With the end of war and subsequent importance shown to food production in the country, importance given to consumer stores cooperative societies declined. By the end of 1956, the new concept of Multi Purpose Cooperatives was introduced the number of consumer stores societies was 2584 with a membership of 7,06,450. The turnover during 1956 was Rs. 185 million. In 1957, the number of consumer shops run by the Stores Societies was reduced to 827.

First wholesale organisation for consumer cooperatives was set up in January 1943 as a section of the Department of Cooperatives by the name of Cooperative Wholesale Establishment (CWE) which was later handed over to the newly established Department of Cooperative Development in 1945. With the expansion of business through imports of food items, the CWE was made independent through an act of parliament in 1949. The ultimate objective was to hand over the management to cooperatives, which was never accomplished.

Consumer Stores Cooperative Societies were serviced by the secondary level Union which became the supply source of merchandise. By 1956, there were 95 Unions with a membership of 2625 primary cooperatives.

Consumer cooperative movement of Sri Lanka has not been developed as a single purpose cooperative system such as in Japan except during post decade of 2nd World War, when Consumer Stores Society campaign was introduced and developed. Since 1957, the consumer cooperatives were integrated into a multi purpose cooperative system. The argument put forward for justifying this change was on the basis of several factors:

- Villagers had to go to several types of small cooperatives to obtain their consumer and productions needs. Owing to the establishment of separate Thrift and Credit Cooperatives, Stores Cooperatives, Agricultural

Production and Marketing Cooperatives and also Small Industries Cooperatives at the village as single purpose cooperatives, they had to become members of all these organisations to get services and participate at the meetings and the management.

- Majority of these cooperatives were small to the extent of being economically not viable.
- There was unemployment in rural areas, and an organised cooperative system would be able to generate employment through contracts from the government

Then Minister stated that he wanted to have one integrated cooperative organisation for village development which would have all services linked. The target of establishing Multi Purpose Cooperative Societies (MPCSs) was to have one such cooperative in each village. The Minister of Agriculture and Food stated on 1st July 1957: *"The reorganisation of the cooperative structure, I think is essential not only for the healthy growth of the movement, but even for its continued existence. The reorganisation I envisage is the replacement of the varied types of cooperatives by a single Multi Purpose Cooperative in each village.The main functions of the Village Cooperative will be credit, purchasing and sales. As soon as such a society is established in any village, the distribution of rationed foodstuffs, the purchase of commodities under the guaranteed price scheme and the grant of subsidies by government for fertilisers etc. will be done only through such cooperative and only to or from its members. In addition, such a society could also perform a variety of other functions such as the organisation of labour for village constructions works and other purposes, thereby eliminating the private labour contractor. The Village Cooperative will also be entrusted with the task of the preparation and after its approval by the government, the implementation of the Agricultural Plan for the village. The village Societies would combine into a single multi purpose Union of Societies at the Village Committee level."*

These cooperatives were government sponsored organisations and the Department of Cooperative Development organised 3897 MPCSs with an individual membership of 5,76,358 by the end of 1958.

In spite of the enthusiasm shown by the Department to organise and help these MPCSs, there were mixed results achieved over a period of time. They have mainly engaged in credit and distribution of essential commodities functions. Basically, these commodities were under rationing scheme. By 1968, more than 65% of the turnover was achieved from selling rice, flour and sugar.

The other change in the consumer cooperatives was introduced by the new socialist government that came into power in 1970. It was a major reorganisation of the cooperative movement that involved not only MPCSs, but also other types of cooperatives as well as governance systems. A study conducted by the Department of Cooperative Development in 1970 showed the following result in major three types of cooperatives:

MPCSs engaged in 2 or more business activities		2829
MPCSs only engaged in consumer activities		987
MPCSs engaged in only agricultural activities		493
MPCSs engage in one single activity, other than above		5
MPCSs which are inactive		760
Active consumer Stores Societies		475
Inactive Consumer Stores Societies		154
Active Cooperative Agricultural Production & Marketing Societies	46	
Inactive Cooperative Agricultural Production & Marketing Societies		69
	Total	5818

Out of these cooperatives, 16.8% were defunct. 49.3% were running at losses.

The Department identified following weaknesses in the Cooperative Movement in 1970.

01. Many cooperatives are too small and economically not viable. They experienced gradual decline in business.
02. Existence of weak and corrupt management committee due to the lethargy of the members.
03. As the cooperatives were unable to recruit professional managers, the management committee members have engaged in managing business of cooperatives.
04. Due to the above factors, corruption and inefficiency have become inherent in cooperatives.
05. Deficiency of services by the secondary unions for their primary cooperative members.
06. Weak guidance provided by the officers of the Department of Cooperative Development due to various reasons.

Throne speech of 1970 laid down the new government's economic policy which gave priority for cooperatives to become economic development agents at the village level. Therefore, the establishment of large primary cooperatives by amalgamating former small MPCSs was justified. The area of operation of such MPCSs was generally covered local authority areas and the number proposed was 638. However, Estate Consumer Stores Cooperatives were not included in the reorganisation as they were found to be having separate identity with the estate labour. Amalgamation of cooperatives was firstly suggested in the recommendations of the Royal Commission on the Cooperative Movement of Ceylon headed by Dr. AF Laidlaw, but their recommendation was to pursue voluntary amalgamation in the line of Japanese agricultural cooperatives.

However, due to the urgency felt by new government, the amalgamation was undertaken through special legislation approved through the Parliamentary Acts No. 34 and 35 of 1970. Through these the government was empowered to pursue involuntary amalgamation by way of gazette notification by the Minister.

The target of the formation of reorganised MPCs in 1971 was 500, but eventually 371 MPCs were formed by amalgamating and liquidating some of the former MPCs and MPCs Unions.

Commenting on the trend, the Report of The Presidential Commission on the Cooperative Movement in Sri Lanka states that "*The trend has been for more and more government intervention through the Department of Cooperative Development in the affairs of cooperatives.*"

Common growth trends of the Cooperative movement during past 6 years are as follows:

Type of coop. society	1997	1998	1999	2000	2001	2002
Multi Purpose Coop.	301	308	311	311	311	305
Thrift and Credit	8576	7876	7735	7658	7091	7186
Tea, Rubber, Coconut & Palmyra	166	166	276	176	171	142
Other Agricultural	197	224	97	103	38	112
Milk Production	188	190	187	187	145	152
Livestock – others	42	42	93	95	50	47
Fisheries	617	591	658	674	673	706
Textile	34	34	31	31	27	18
Small and Medium Scale Industries	141	143	176	200	161	198
School	1121	1051	993	1016	761	887
Hospital	5	5	12	12	7	7
Labour	49	51	51	51	28	29
Housing	246	275	324	328	377	348
Transport	4	5	6	6	12	8
Youth services	173	312	304	304	21	23
Estate Stores	66	69	62	62	55	62
Garment	-	-	-	-	-	3
Others	587	420	490	507	590	771
Total	12513	11762	11706	11721	10518	11004

Source: Department of Cooperative Development – Sri Lanka.

The cooperative societies having retail shops or providing retail sales services – Multi Purpose Cooperatives, Thrift & Credit Cooperatives, Estate Stores and School cooperatives have experienced general decline in numbers during past six years. Decline of the number of MPCs is due to the amalgamations that took place in North & East Province.

(ii) Types of Consumer Cooperatives:

The types of consumer cooperatives dealing with the retail business could be identified as following:

1. Multi Purpose Cooperative Societies (MPCSs)
2. Thrift and Credit Cooperatives (TCCS)
3. Estate Stores Cooperative Societies
4. School cooperatives
5. * Other consumer cooperatives

Multi Purpose Cooperative Societies:

Multi purpose cooperatives are essentially consumer cooperatives in Sri Lanka. Following analysis conducted by the Presidential Commission on Cooperative Movement in 2002 confirms the fact:

Activity-wise Classification of Business Turnover of MPCSS.

Activity	As a % of Total
Consumer sales	60.4
Rural banking	18.9
Filling stations	17.0
Industries	0.009
Agricultural supplies and purchases	1.9
Agricultural processing	0.4
Transport	0.6
Services	0.4
Internal services	0.4
Community services	0.005

Source: Presidential Commission Report on Cooperative Movement of Sri Lanka

Multi purpose Cooperative Societies are scattered in all provinces in the country and they are the main retail services provider for cooperative members. They have the largest membership and the largest number of full time employees as well as largest number of retail shops and supermarkets.

Business units of the MPCSSs in 2002 are as follows:

Description	NCP	N/E	Uva	South	West.	Centr.	NWP	Sabara gamuwa	Total
Multi purpose coop. societies	28	90	17	34	38	42	33	23	305
Business & community service units									
Branch shops	423	1304	418	1006	1193	652	993	865	6854
Whole sale depots	83	127	32	69	130	52	61	71	575
Other retail shops	-	69	32	31	730	55	58	57	1032
Building material sales shops	-	11	08	12	06	17	08	-	62
Textile shops	-	29	06	08	01	-	06	-	50
Self service shops	19	-	08	12	64	03	-	15	121
Milk booths	01	-	-	02	40	03	08	06	60
Agricultural shops	-	-	02	01	03	03	09	03	21
Filling stations	19	66	14	29	43	28	35	26	260
Pharmacies	-	04	02	03	04	-	02	02	17
Vehicle service stations	-	07	05	01	02	01	01	04	21
Bakeries	02	15	01	02	07	01	-	07	35
Restaurants	02	26	04	05	03	01	-	05	46
Tourist resorts	-	02	-	-	-	-	-	-	02
Tourist hotels	-	-	-	-	-	01	-	-	01
Grinding mills – grains	29	28	01	08	-	04	16	05	91
Chillies	-	01	02	05	06	09	-	05	28
Printing press	01	04	02	06	09	01	09	06	38
Hair dressing	-	-	-	01	-	01	-	01	03
Cinemas	01	-	-	-	-	01	01	-	03
Rural bank branches	77	100	113	529	404	220	263	185	1891
Agency post offices	-	02	01	04	04	04	-	02	17
Vehicle repairing	-	01	-	-	-	-	-	-	01
Tea factories	-	-	-	02	-	-	-	01	03
Rubber factories	-	-	-	-	-	-	-	-	-
Packeting sections	-	05	-	12	24	06	27	23	97
Hospitals – eastern	-	-	-	-	-	01	-	-	01
Western	01	-	-	02	05	01	01	-	10
Medical channelling centres	-	-	-	-	02	-	-	01	03
Surgical services sections	-	-	-	01	-	-	-	-	01
Milk production sections	-	-	-	-	01	-	-	-	01
Communication services	-	02	-	06	02	02	12	02	26
Information services	-	01	-	-	-	-	-	-	01
Sale of motor cycles	-	-	-	01	-	-	-	-	01
Furniture shops	-	-	-	01	-	-	-	-	01
Handicraft shops	-	-	-	-	-	-	03	-	03
Flower shops	-	-	-	-	01	-	-	-	01
Farms	-	01	-	-	-	-	-	-	01
Villages	-	-	-	-	-	03	-	-	03
Tea plantation sections	-	-	-	02	-	-	-	-	02
Nurseries	17	12	-	01	10	03	12	03	58
Other educational services	-	01	-	-	01	-	-	01	03
Libraries	-	-	-	-	10	-	-	-	10
Funeral services	01	04	-	03	02	03	06	-	19
Others	01	22	-	-	02	09	-	-	34
Sub total	624	1843	651	1765	2708	1085	1531	1296	11503
Lorries	49	187	45	88	135	83	95	98	780
Buses	03	22	05	04	02	12	04	-	52
Vans	03	05	05	17	42	08	28	08	116
Tractors	06	-	11	29	25	03	17	14	105
Bowseers	03	05	07	05	16	05	14	12	67
Three wheelers	01	-	01	06	16	04	04	02	34
Motor cycles	-	01	03	09	04	11	07	07	42
Other Motor vehicles	-	02	-	19	10	03	04	15	53
Sub total	65	222	77	177	250	129	173	156	1249
Grand total	692	2066	728	1942	2958	1214	1704	1452	12756

Source: Department of cooperative Development.

The MPCSS have a large number of consumer service units in varying fields. They have only few agricultural services units such as agricultural input supply shops and mills. Few farms are operated by MPCSS. These cooperatives manage considerable number of wholesale units though reduced in number for internal supplies as well as supply to private traders. This has been a legacy coming from the 1970s when the MPCSS had the monopoly of wholesale business.

The sale of consumer goods by the MPCSS has shown following results over last 10 years.

Sale of Consumer Commodities of MPCSS -2002

Value in Rs. Millions

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Province										
N/E	n. a.	n. a.	1601.9	1601.9	4871.7	5878.0	5570.2	6852.0	6628.8	4681.1
NCP	1119.3	n. a.	1043.7	1217.5	1296.0	1449.8	1709.8	916.9	883.4	1588.8
Uva	1132.1	n. a.	998.7	1103.9	1192.9	1735.8	965.1	928.9	1041.9	727.7
South.	2260.4	n. a.	2973.9	2416.5	2604.6	2699.1	2722.7	2964.0	3795.2	3006.2
West.	5147.2	n. a.	5802.6	5075.5	7248.0	7043.0	5294.8	5123.4	5066.2	4761.2
Central	2636.1	n. a.	2900.8	2642.7	3434.7	3440.9	2479.4	2312.0	3556.9	1808.8
NWP	2588.2	n. a.	2992.6	2716.2	2834.0	3799.3	3530.2	3262.7	3722.1	2467.0
Sabara gamuwa	2137.6	n. a.	2391.3	2917.3	2342.5	2873.7	2192.3	1988.1	2280.7	1828.1
Total	17020.9	22085.7	20705.5	19691.5	25824.4	28919.6	24464.5	24348.0	26975.2	20868.9

Source: Department of Cooperative Development – Sri Lanka

There is a general decline of consumer business over the years. When the depreciation of Sri Lankan Rupee is taken into account, the rate of decline would be more. Out of the provinces, only Southern Province has shown a marginal increase.

The consumer cooperatives in Sri Lanka have three types of shops:

1. Traditional counter sales shops
2. Self service shops
3. Supermarkets.

From the very inception of the cooperative consumer stores in 1930s, counter sales system has been the tradition for cooperative retail shops. Elaborate counters are made to serve the customers and the sales persons serve them standing behind the counter. The shop has one door to enter and exit. Sometimes, the customers are served in the compound itself when the store is too small. This is done through window type counter. This was a suitable arrangement for a distribution oriented consumer society with scarcities and rations. These shops are now on the way out, however.

When these counter sales shops become larger, the space is divided into groceries, textiles and food stuff and stationary etc. which are management by separate sales persons. The arrangement is no longer cost effective due to the increase of labour cost.

Another disadvantage of these shops is the limited customer area. Normal acceptance for customer area in these shops is 20% of the total space, but they hardly maintain it. Village grocers are still having this typical shop pattern.

Self service shops were a creation of 1970s by some urban cooperative consumer shops to attract customers from the open market, which became popular now. They were inspired by the training some managers received in Sweden and other Scandinavian countries through the sponsorships of the Swedish Cooperative Centre (SCC). They are operated as convenience stores providing daily needs of the member households. Although there were scepticism by many cooperative leaders and managers, the concept has worked in the remote areas such as Kebithigollawa in North Central Province too. The arrangement has found to be cost effective in terms of labour, infra structure and fittings etc. With the boost given by the private sector retailers, this has now become a normal shop system in some cooperatives, but majority of the MPCs are yet to introduce the concept.

Traditional resistance to the introduction of self service store system is the fear of shop lifters. It is believed that unless there is a salesman to serve the customer and if the customer is asked to select his own purchases, there would be an opportunity for him to steal from the shop. However, the history has shown that the leakages were due to the employees' pilfering more than customers shop lifting. Therefore, an allowance was given up to 1% of the stock for leakages. Recent experiments undertaken by cooperative self help shops have proved that the belief is not a reality. When the private sector supermarkets are thriving, the misunderstanding from cooperatives too is declining.

Some of the supermarkets in other countries use employee hot lines for employee theft prevention, so that any employee could give tips to the management about pilfering by employees, which is rewarded. Another strategy is to provide incentives in form of bonus on the savings from the budgeted leakage allocations. Some MPCs in the past have allocated such percentages for leakages in the budget, and some such incentives have been paid. This strategy is not so popular among the management of consumer cooperatives.

Cooperative supermarkets are of recent origin in the consumer cooperatives, but the private sector had the concept for more than two decades now. Influenced by these private supermarkets and the exposure to cooperative supermarkets in other countries such as Japan, Sweden, and Singapore, some of the cooperative leaders and managers introduced the concept in their cooperatives. These supermarkets run parallel to other traditional retail shops in the same cooperative society and they normally confined to cities such as Negombo, Nuwara Eliya and Colombo suburbs.

Thrift and Credit Cooperative Societies (TCCS)

Before the advent of secondary and tertiary structure of the TCCSs, these cooperatives remained single purpose cooperatives in the strict sense. The known link up with the consumer services comes from Palugama link up scheme, where different types of cooperatives- TCCSs, Agricultural Producers Coops and Consumer Cooperatives in the area formed a network to receive all services including credit, agricultural inputs, marketing and consumer services in a coordinated manner. Still, the identity of each type was kept separately. This experiment, which started in late 1950s, was in operation until the reorganisation of cooperatives in 1971. However, there had been instances where some institutional credit cooperatives used the organisation to obtain consumer goods and distribute among the membership. It was never a regular activity.

New thinking of multi services through TCCSs came into being with the establishment of the TCCS Federation, (FTCCS) popularly know as *Sanasa* Federation in 1982. The expansion was mooted by the Donors Forum of the FTCCS, using the experience of Canada and the USA. The idea was to bring the producers and the consumers together through a project on producer- consumer alliance. Later the project was institutionalised and spread to undertake different types of consumer and other businesses. The details are given below:

Business Units and Community Services of
Thrift and credit Cooperative Societies (TCCS) -2002

	N/E	NCP	Uva	South.	West.	Centr.	NWP	Sabara gamuwa	Total
No. of societies inclusive of banks	-	-	07	144	204	n. a.	234	202	791
Exclusive of banks	1283	476	613	1025	755	n. a.	922	554	5628
Total	1283	476	620	1169	959	n. a.	1156	756	6419
Business and community service units									
Agency post offices	-	-	01	14	06	n. a.	-	21	42
Consumer shops	-	-	05	08	15	n. a.	-	-	28
Stationary shops	02	-	03	01	06	n. a.	-	22	34
Other shops	04	-	-	01	01	n. a.	-	-	06
Farms	-	-	-	-	-	n. a.	-	-	-
Others	02	-	-	13	-	n. a.	-	16	31
Sub total	08	-	09	37	28	n. a.	-	59	141
Libraries	-	-	-	03	17	n. a.	-	-	20
Pre schools	-	41	02	05	28	n. a.	-	-	76
Children's clubs	-	19	-	26	40	n. a.	-	-	85
Orchestra	-	-	-	-	-	n. a.	-	-	-
Youth clubs	-	-	-	-	26	n. a.	-	-	26
Women's clubs	35	-	-	07	66	n. a.	-	-	108
Others	-	-	-	06	12	n. a.	-	-	18
Sub total	35	60	02	47	189	n. a.	-	-	333
Grand total	43	60	11	84	217	n. a.	-	59	474
No. of societies undertaking pawning of jewellery	-	-	-	01	25	n. a.	-	20	46

As seen here, the influence of TCCS on consumer business is marginal.

Estate Cooperative Stores Societies

First consumer store in the country was formed in Passara Tea Estate in 1927, which was unique. Being in the remote areas, the management of these estates had the responsibility of ensuring the consumer goods supply to estate workers, who were mainly consisting of South Indian families. Unlike Muslim traders who came and settled down in Sri Lanka, These workers brought their families and formed a community of their own. British management who had the experience of cooperatives formed these cooperatives and the Superintendent of the estate normally becomes the chairman. Consumer commodities were supplied on credit, which was deducted from the pay roll.

Up to the time of Land Reform in 1972, these cooperatives were having larger business and were running at a profit. These cooperatives sometimes had taverns selling toddy for workers and also established community halls for weddings etc. some of them were also running bakeries for the workers.

By the end of 2002, there were 62 estate stores societies having a membership of 12241 families. Main concentration was in the Central Province (18 coops) followed by Sabaragamuwa province (11 coops).

There are no secondary organisations for estate stores cooperatives. The business turnover is not available in the data bases, but it could be said that these cooperatives cannot be considered as community cooperatives, as they are confined to estates only.

School Cooperatives

School cooperatives were introduced to Sri Lanka in 1934 and these cooperatives were known as 'juvenile societies' or 'school supply cooperatives'. The objective was to make the school children interested in cooperatives and to provide consumer services to school children.

By 1942, there were 32 School Cooperatives, which culminated in having 2042 in 1968 with a membership of 237100. There were two types: Registered and Recognised. As the minimum age for membership in cooperatives is 18 years, primary school cooperatives were only had recognition. Even the recognised cooperatives were allowed to carry out business activities although they did not have registration. In 1972 this problem was settled by having amendment to the cooperative legislation.

These school cooperatives essentially were having multi services such as saving schemes, operating retail consumer shops, canteens; book shops etc. during 1970s school farms too were introduced.

There had been a gradual decline of school cooperatives in numbers of active cooperatives:

1997	: 1121
1998	: 1051
1999	: 993
2000	: 1016
2001	: 761
2002	: 887

The number of school cooperatives having registration in 2002 was 1400. Membership was 217380. Total number of employees in school cooperatives was 55.

In the year 2000, school cooperatives had 18 permanent shops, collected deposits to a value of Rs. 0.26 million and had a retail turnover of Rs. 0.19 million. This shows a very marginal consumer business by school cooperatives. However, the school authorities normally provide shop space free of charge and sometimes the electricity is free of charge.

There are no secondary or tertiary organisations for school cooperatives.

Other Consumer Cooperatives.

These consumer cooperatives could be termed as community based single purpose cooperatives on one hand, although there are few institutional consumer cooperatives concentrated in the offices.

This new phenomenon is seen in the areas where the MPCSSs have failed in their consumer operations. These cooperatives are single purpose consumer cooperatives formed by the people on voluntary basis utilising their capital. They are not engaged in the distribution of government supported Samurdhi food items, but operate consumer retail shops in the area where the assortment is decided by the management committee based on the needs.

At present, there are about 10 such cooperatives having a membership of 23277. The turnover they have gained is not recorded in the data bases, but is marginal as per the observations made by the writer. Some have already failed due to low capitalisation which has restricted the assortment these shops carry and also the cost of purchases has become higher. They have also never had experience in operating on a dynamic assortment policy, which would bring more stock turnover than the MPCSSs. Supply sources too are private sector suppliers. The shops are having the traditional counter sales system with few employees. Goods display too follows the conventional methods. In a growing village grocer's presence who adopt times and the assortment policies that suit the customers, these cooperatives tend to fail unless they adopt such competitive strategies.

(iii) Competitiveness of Cooperatives:

Retail enterprise in the current competitive market should have sufficient number of clients to survive, as the profitability comes from the size of the turnover. The MPCSS have 12269 members per Society by an average, which is sufficient for achieving a good turnover.

Multi Purpose Cooperative Societies remain the largest group of retailers in the country in the absence of any retail chain by any other company.

A recent survey conducted on the preference of the type of retailers in the community (Karunatilake2003) has shown following results:

Variable	No. of responses	Percentage of response
Village grocery shops	500	39.90
Coop retail shops	279	22.27
Market shops (town)	230	18.36
Weekly fare	94	7.50
CWE Franchise	69	5.51
Supermarket	19	1.52
	1253	100.0

As seen here, the nearest competitor to cooperatives is the village grocer, who is expanding the retail market share especially in the rural and semi urban areas. With the liberalisation of the economy, village groceries have gained ground due to many reasons:

- a) Availability of abundant stocks of consumer goods in the whole sale market with attractive margins and credit sales;
- b) Decline of cooperative consumer shops in terms of variety of merchandise and attractive service;
- c) Encouragement given by the government for small entrepreneurs through training and credit with low interest;
- d) Franchise arrangements made by wholesalers such as CWE;
- e) Excess family labour available for business.

During the above survey, village groceries scored higher than many aspects and shown better sustainability in the market than cooperatives:

Key Success Factors of Consumer Trading Activities.

Key success factor	Cooperative retail	Village grocery
Effective sales force	Low	High
Attractive packaging	Medium	Low
Customer reliability	Low	Medium
Strong branch network	High	Very low
Space on shelves	High	Low
Own sales outlets	High	High
Low distributing cost	Low	High
Favourable image	Low	Medium
Overall low cost	Very low	Medium
Convenient location	Low	Medium
Courteous employees	Very low	Medium
Market survey	Low	High
Stock requirement	Very low	High
Ability to compete with price	Low	High
Transportation	High	Medium
Close customer relations	Low	Very high

Still the cooperative shop is preferred due to many reasons:

- a) Cooperatives have the largest number of retail shops (6854 in 2002) spread over the villages and the urban areas
- b) Practically all Samurdhi recipients receive their goods through food stamps from the MPCSS.
- c) Supermarkets are confined to big cities only.

In Sri Lanka, there are no hyper markets established as in the case of Scandinavia or Europe. One has been tried by the CWE near Colombo city, which was a unique and successful one, which had substantial sales. It was popular among middle class salary earners and affluent families who were used to buy in bulk for monthly supplies. However, this too was modified to become an average supermarket after privatisation of the CWE.

In regard to the customer responses of their priorities in purchasing goods from a retail store, it has shown a co relationship with their preference of cooperative shops to quality and price. It appears that the image the cooperatives had in the 1970s as suppliers of low quality goods has changed by now. A survey conducted (*Karunatillake – Ibid*) has shown the results as following:

Factors that are influenced in buying decisions of consumer trading activities.

Variable	No. of responses	Percentage of response
Quality of goods	316	29.23
Price of goods	312	28.86
Availability of all the goods	171	15.82
Speed of the service	110	10.18
Convenience for selection	70	6.48
Credit facility	27	2.50
Convenient time for shopping	21	1.94
Convenient location	20	1.85
New products & services introduced	15	1.39
Customer attitude of the staff	10	0.93
Knowledge of the products/services	6	0.56
Extra benefits attached	3	0.28
	1081	100.00

(iv) Shop Location:

During the reorganisation of cooperative movement in 1971-72, many new MPCSSs were formed amalgamating and liquidating early form of MPCSSs, aiming at carrying out national development plans of the government through these large primary cooperatives. For this purpose, every local authority area and former Divisional Revenue Officers areas had to be covered; hence many abandoned Cooperative Agricultural Producers Society (CAPS) buildings were reconstructed and taken as offices, warehouses and shops. In addition, former MPCSSs shops too were taken and where there were no buildings to accommodate shops, private buildings were requisitioned under an Act of Parliament (Acts No. 34 and 35 of 1970). Some were also taken under Emergency Regulations gazetted by the government.

Another aspect of formative stage of current shop locations was the influence of local politicians. Cooperative shop was the only channel at the village level for consumers to procure their essential commodities which were rationed mostly. Therefore, interested groups approached politicians to have shops in their villages without considering the economic feasibility. As a result, many shops were found operating in the same vicinity. During 1970s, these shops were managing to survive, but by 2002, the number of MPCSS retail shops reduced to 6854 from 8510 in 1978. The number of wholesale branches was reduced to 575 in 2002 from 655 in 1978.

There has not been any attempt to made to review such locations in terms of emerging open market economy after 1977 in order to prepare for the prospective competition. Government continued to attach its distribution of food commodities to poorer sections of the community either through Jana Saviya programme or Samurdhi programme. Dependence on such programmes made cooperatives non responsive to changes in the market environment. As a result, the number of retail shops dropped to 6854 in 2002

from 8846 in 1979. As at present, at least 5% of the MPCSSs do not operate any retail shops. Some of the others have been given to managers to operate on fixed leased basis. One of the reasons for the closure is the unsuitability of the location which was working during the time of a monopoly. Since 1977, there had been changes in the urbanisation, population migration and new markets which necessitated looking into shop locations seriously.

During former generation of MPCSSs in 1957, it was a one shop concept with all facilities for the management committee to meet, cooperative office, store room and living quarters made into one integrated whole. It continued to function even during the next generation of retail shops for branch committees to have facilities, although the shop administration deteriorated as the branch committee had a marginal function of supervision. Cooperative shop during the early period was not only a business place, but also a place where the villagers used to socialise. At present, it is only frequented by Samurdhi recipients and few isolated customers.

(v) Cleanliness and Sanitary Conditions:

Modern day consumer is more conscious about not only the quality of goods, but also the cleanliness of the premises and sanitary conditions of the shop. In this respect, the cooperative shops did not have a good image throughout the history, in comparison to private retail shops. One reason was the disorganised bulk handling of rationed commodities such as rice, flour and sugar as well as kerosene and agricultural inputs such as fertilise and agro chemicals sold in the same shop.

The staff did not receive adequate training on the methods of cleaning the shop and the shelves, which was not emphasised in the training programmes conducted in the cooperative training institutions. Observation of sanitary conditions too was not a subject which was given much thought. Therefore, there had been many cases of prosecution by Public Health Inspectors on these conditions.

At present, Coop City shops are comparatively cleaner and well maintained than the average retail shops where Samurdhi goods are distributed. This new generation of shops have adopted better cleaning practices from the private supermarkets and have used racks and equipment which are easy to clean.

Cleanliness has not been a virtue maintained by cooperative shops prior and after the reorganisation. As the supervision by the public health authorities on the cooperative shops was lesser than private shops, the management of the cooperatives did not give priority in these areas. Even in the training programmes on shop management conducted by cooperative training institutions did not have technical training in these subjects. Even at present, except in the coop supermarkets, cleanliness and hygiene are not priorities.

Learning from the private supermarkets, cooperative supermarkets are trying to maintain basic hygiene and cleanliness. However, one cannot be satisfied that the staff in the shops has got any scientific training on the subject.

The constraints faced by the MPCSSs to maintain better hygienic conditions in the shops are due to the construction problems to a greater extent. Traditional materials such as timber and chip boards or corrugated metal sheets are used for racks and the walls are painted. Floors are normally cemented. In contrast, private supermarkets use easy to clean plastic and fibre shelves combined with tiled floors and waterproof walls. Aluminium is popularly used for partitioning.

(vi) Assortment:

Due to the changes in the consumer behaviour in the process of changing life styles under a market economy, the assortment needs careful consideration. This aspect was not given much consideration at the beginning of the new generation of MPCSSs, as it was a distribution oriented retail industry. However, there had been attempts to introduce elaborate forms of assortment by the Department intervention, but the MPCSSs management was not that concerned as there was secure market for the merchandise.

As of today, very few MPCSSs operate textile shops, hardware shops and specialised shops. Merchandise is confined to essential food commodities such as rice, flour, sugar and spices and kerosene which are meant for Samurdhi recipients. Following table provides an idea about broad assortment of the MPCSSs by looking into the supply sources.

Seasonal merchandising observing the New Year and Christmas is also observed by the MPCSSs retailing. Variety and cross merchandising is weak or non existent. Number of items in the cooperative retail shop does not exceed 300 as an average although some shops carry about 800 items. Supermarkets have better assortment than village retail shops.

The assortment today in the cooperative retail shops is very limited. Following is the breakdown of major items of assortment in 2002:

CLASSIFICATION OF ASSORTMENT OF MPCSS 2002.

Item	Value of supply Rs. Million	% of total
Rice	4816.4	46.13
Flour	1768.9	16.94
Sugar	1599.8	15.33
Gen. merchandise	2256.2	26.60
	-----	-----
	10441.3	100.00

Purchase of Consumer Commodities by the MPCSS – 2002 – by Supply Sources

Quantity in Metric Tons
Value in Rs. Millions

Province	Description	Government sector			Private sector			Cooperative sector			Members			Tot		
		Rice	Flour	Sugar	Others	Rice	Flour	Sugar	Others	Rice	Flour	Sugar	Others			
1 N/E	Quantity	5452	5421	1967	-	7936	4644	3675	-	5703	11066	518	-	437	-	-
	Value	235.2	182.5	106.6	189.3	203.0	99.6	144.3	747.3	161.6	331.1	33.5	211.0	8.6	-	1.8
2 NCP	Quantity	-	8820	3037	-	6400	02	8048	135	378	-	67	-	20	-	-
	Value	-	158.7	91.1	-	209.4	1.0	241.4	47.0	9.6	-	2.0	-	5.0	-	-
3 Uva	Quantity	-	8476	263	-	3229	-	902	142	297	-	-	-	-	-	-
	Value	-	162.2	7.6	-	75.2	-	27.5	7.1	6.8	-	-	-	-	-	-
4 Southern	Quantity	5200	2300	3500	-	15130	7940	26000	-	-	1800	-	-	-	-	-
	Value	91.9	37.4	97.3	39.3	232.9	158.8	720.2	686.7	-	28.7	-	3.8	-	-	0.5
5 Western	Quantity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Value	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
6 Central	Quantity	251	2529	n.a.	-	1115	14840	1224	-	230	1013	58	-	6	-	-
	Value	60.0	64.5	6.2	13.7	267.8	282.0	36.7	279.0	5.5	19.0	1.8	29.8	1.0	-	1
7 North Western	Quantity	n.a.	n.a.	n.a.	n.a.	n.a.	N.A.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Value	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
8 Sabara gamuwa	Quantity	-	-	-	-	15224	12807	2789	-	-	-	-	-	-	-	-
	Value	-	-	-	-	304.4	243.3	83.6	-	-	-	-	-	-	-	-
Total	Quantity	10903	27546	8975	-	49034	40233	42638	277	6608	13879	643	-	463	-	2
	Value	333.1	605.4	308.8	242.2	1292.7	784.7	1253.7	1767.1	183.5	378.8	373	244.6	9.2	-	2.3

Another aspect that has to be considered is the dependence on Samurdhi sales and fuel sales. 48.6% of the total retail business is from Samurdhi programme and fuel business has had a substantial contribution to retail business by having Rs. 14896 million in 2002 and had a growth of 32.4% over 2001. In addition, there had been drought relief ration distribution through government sponsorship in addition in 2002.

If the assortment is to be achieving better stock turns, it should be based on weekly requirements of the branches, so that the cooperative could achieve at least 4 turns instead of 1-2 achieved now. Although there had been an elaborate format introduced by the Department of Cooperative Development, very few MPCSS follow the system. One reason is the inability on the part of the MPCSS to have a better range of commodities due to financial problems. Working capital of the majority of the MPCSS has got eroded over period of time, and they have faced financial crisis at present, Although the members could provide more capital, they would not consider it, as the MPCSS have become distant to members which have led to loosing faith on the cooperative.

Due to the closure of branches, there had been a marked decline of sales in the retail shops of the MPCSS. In addition, the MPCSS still have a substantial wholesale business due to supply of merchandise to their own shops as well as village groceries.

Consumer Services of Multi Purpose Cooperative Societies – 2002.

(Value in Rs. Millions)

Province	Sales in 2002			Sales in 2001
	Retail	Wholesale	Total sales	Total sales
North and east	3183.3	1497.8	4681.1	6628.8
North central	1243.0	345.8	1588.8	863.4
Uva	379.3	348.4	727.7	1041.9
Southern	1702.0	1304.2	3006.2	3795.2
Western	2326.5	2434.7	4761.2	5066.2
Central	1119.9	688.9	1808.8	3556.9
North western	1827.0	640.0	2467.0	3722.1
Sabaragamuwa	1247.2	580.9	1828.1	2380.7
Total	13028.2	7840.7	20868.9	26975.2

Source: Department of Cooperative Development.

The wholesale business ratio that should be feasible to maintain from the total sales has been calculated as 35% and overall picture is 37.57%. Therefore, retailing is lagging behind. When we consider retailing as heavily dependent on 4-5 items of essential commodities, one could not accept that there is a proper retail business with the MPCSS shops.

Current trend of the village groceries and the urban private supermarkets is to achieve highest stock turnover per month, thus eliminating the need to keep any buffer stocks. Buffer stocks were a phenomenon during the times of scarcity. During 1970s the MPCSS

were heavily dependent on buffer stocks as there was severe shortage of consumer commodities. The number of stock turns of the MPCs retail shops has gone down to 1-2..

One of the key strategies lacking in the maintenance of an efficient assortment policy is the lack of consumer responses to the assortment. There has not been any attempt made to receive customer responses on the merchandise the shops carry and eliminate slow moving items accordingly. Such a system would not only help to achieve more stock turnover, but also help in streamlining delivery schedules and introduce new products in the markets. Being distribution oriented organisations, the MPCs were under the supervision and guidance of the Commissioner of Cooperative development, and hence there was no occasion to take initiatives in this respect.

Customer response system would also indirectly help eliminating excess stocks and organise efficient stock controls too. At present, there is a stock control form system in the MPCs created in the 1970s, which would not help in these directions. So far, it has been supporting prevention of leakages and keeping the stock within the maximum and minimum levels fixed for each shop.

Reordering system in the MPCs is weak as the sales managers have the tendency to push the merchandise to branch shops at will. There is a specimen form which is supposed to be used at the time of re ordering, but the supplies are never undertaken accordingly. As the cooperatives do not provide commodity information to branch shops the ordering becomes difficult to perform properly.

Cooperative retailers are still depending on mass selling rather than micro selling targeted at specific type of customers if not individual families. Village grocers are more mindful on this as they depend on the high turnover of stocks in a limited customer base. If the cooperative retailers have been member oriented and geared to supply members' needs such distinct selling patterns would have been developed.

(vii) Cooperative Supermarkets:

The idea of supermarkets was introduced to Sri Lanka in 1980s by the private sector after introduction of open market policies. Earlier from the colonial times the most popular system was department stores owned by British Companies such as Cargills and Millers. They were basically specialised shops in one premises basically located in major cities such as Colombo, Kandy and plantation areas such as Bandarawela. The first supermarket- Anglo-Asian- failed after some time and others have started to make them more successful. The first to open a supermarket chain after first experiment was the CWE which manages the largest number of supermarkets in many cities in the country. At least four other private companies are operating supermarket chains including one Singapore based company.

The market square concept is not yet come to cooperative sector although it is popular with the private sector companies. At least in Colombo there are 5 such shopping malls

operating and some of them are specialised in textiles etc. they have all facilities for consumers such as kiddies area, food courts and even mini cinemas.

The MPCSSs followed the supermarket concept later, but they were merely imitating the others without much innovation. Many of these cooperatives managed by the MPCSSs have adopted the name Coop City going after the name of another supermarket chain named Food City. At present, 15 MPCSSs are operating supermarkets in addition to their traditional shops. There are no supermarket cooperative societies in the country.

Parking has been a major factor for supermarkets to succeed, and at least two supermarkets have been closed down (one in Pettah) and another in Maradana) partly due to the difficulties of vehicle parking. Paid parking is yet to be organised as a profitable trade on Sri Lanka. However, cooperative supermarkets have not been affected by this problem still.

The cooperative supermarkets lacked technical knowledge of merchandising, display systems and sales strategies of a supermarket although they have obtained some advice from now defunct Sri Lanka Institute of Cooperative management (SLICM). Some of the supermarkets located in Negombo, Nuwara Eliya and Mahiyangane are doing well. Success of these has caused by sufficient capitalisation, proper merchandising inclusive of assortment and competitive prices.

However, the checkout systems are conducted manually, whereas private supermarkets have started computerised scanning systems and credit cards. Self checkout system is yet to come to supermarkets in Sri Lanka. Cooperatives still manage with the customer flow as the congestion is less.

As none of the cooperative supermarkets are air conditioned, the shop itself limits the merchandise. For fresh vegetables and fruits, some cooled shelves are used, but ice tables are never used, thus prohibiting fresh fish, pre cooked meals and marinated meat in the shop.

If the supermarkets are to run on low budgets on display systems, they could have adopted a system such as found in some Seikatsu Club shops in Japan, where the shop functions on basic display systems such as woven baskets and cartons, on the wooden racks but it seems that the consumers in the urban areas prefer Western style supermarket systems now.

(viii) Branding:

Branding has been one aspect to create an identity and competitiveness tried by private sector supermarkets as well as cooperative from 1970's. The first known brand in the cooperatives for consumer products was 'Pasco' used by Colombo Milk Sales Cooperative Society for pasteurised milk during 1960's. Milk Board took over the monopoly of supply of dairy products and the cooperative was liquidated in early 1970's. Later, branding became popular among cooperatives when Sri Lanka Cooperative Marketing Federation started producing packeted spices, gift packs and other consumer

items using 'MARKFED' label. Sri Lanka Industries Cooperative Union used 'Ceyesta' as a brand name for their rubberised coir products which became a symbol of quality and safety in the consumer market. Some competitors tried to imitate the very name such as 'Ceista' but could not survive in the market. These names are still in the market in a limited way. Most recent addition is the 'COOPFED' label used by Sri Lanka Consumer Cooperative Federation for their packeted items such as raisins, spices and canned fish etc. These brands are put to private supermarkets in addition to their own consumer shops to gain more volume of business. Cooperative Bar Soap and coconut oil, products of the Coconut Producers Cooperative Union are also in the open market in a limited way. However, it seems that branding has been followed by cooperatives without giving proper meaning to the exercise that would benefit the member customer. Japanese cooperatives have used the branding with such meaning as following:

- To break through the brand worship and price control;
- Realisation of low price to protect family budgets;
- Improvement of commodity values backed by excellent quality and appropriate specifications;
- Exclusion of harmful substances and correction of misleading representation.

(Coop merchandise policy adopted at 32nd JCCU Congress in June 1982-JCCU)

Own branding was not that popular among the private supermarkets at the beginning and were confined to supply of manufacturers brands for cost effectiveness. They did not follow their European counterparts such as Woolworth or Coles. However, the changes in the consumer responses to traditional manufacturers which were critical on the quality and the pricing, supermarkets in Sri Lanka too started attempting having their own branding. This was accelerated by the manufacturers entering into supermarket business such as John Keels and Prima followed by Elephant House. Cargills Food City supermarket chain took over marketing of Walls ice cream in their own brand name Cargills. CWE supermarket chain had its own private label throughout as they started with wholesaling of various commodities imported by them using the brand name 'CWE'.

Recent scandals of changing expiry dates of imported consumer commodities by some unscrupulous and organised racketeers, have led the supermarket chains to rethink on the branding and their supplies. Under the circumstances, it is expected that private branding may become more popular. Another advantage is the low price that can be achieved through private branding as the manufacturers are compelled to forgo their goodwill price and succumb to retailers' demand for their own specifications and the quality. Japanese consumer cooperatives have gone into better competitiveness by getting manufacturers and supplier to use Coop brand name which has become a symbol of quality and low price.

However, the cooperatives have to realise that private labelling would enhance their competitiveness in the market due to the advantages provided:

- Reduce producer domination in the market
- Create more dependence on the retailer by the consumer
- Customer sales increase

- An opportunity to differentiate and provide variety
- Customer loyalty in a situation where comparisons are avoided
- Positive image building
- More freedom for pricing
- Positive control over stock keeping inventory
- Better bargaining position in a depressed economy.

In this exercise, the advantage of using private labelling is the owners own creation which could be rectified by the retailer himself. Some of them such as standardisation of products, balance between own private labelled items and other branded products in the supermarket are within their own control.

From the perspective of the consumer too, it may have advantages and disadvantages of using private labelling, but by and large, the experience of cooperatives has been that they have responded well for the coop, branded products as they have proved worth in price and quality.

In contradiction, other strategy for achieving competitiveness in terms of price, if not the quality, is the use of generic names. Pharmaceutical products are the mostly used product category on this, which has been tried by the Sri Lanka pharmaceutical Corporation for some time. This has led to head on collision with the drug companies, who have been suspected of even criminal activity to suppress the attempt made by the scientists. KF and other Swedish Cooperative supermarket chains used generic names for consumer items without branding for a long time and it appears that the strategy would not work unless the consumers are well educated on the consumerism. Cooperative retailers in Sri Lanka have been ignorant in this aspect and never used such a strategy to bring down the prices or keep the quality of its own in the market.

(ix) Level of Store Operations:

a. Shopping hours:

Owing to the outdated mode of operations of many consumer shops, the opening hours have been fixed in conjunction with the office hours, hence the consumers are compelled to go elsewhere other than cooperative shops. One of the reinforcing factors is the heavy reliance on Samurdhi goods distribution which is virtually a monopoly of cooperatives. In 2002, out of total retail turnover of Rs. 6700.2 million in the MPCSSs, Rs. 5240.2 million was from the Samurdhi sales. Still, the consumers of cooperatives who are basically women and children are used to follow government office hours. However, newly emerging cooperative superstores and Coop city shops are changing the opening times and closing times to suit the convenience of the office workers.

Another difficulty faced by cooperatives for opening late hours or early part of the day is the inability on the part of the sales staff to turn up at the shops early and close during late hours. They are normally recruited through political patronage or personal preferences without considering the areas where they have to serve, hence they may have

to travel distances where normal public transport is not available. In one of the projects conducted in Uva Province to rehabilitate loss making consumer cooperatives, consumers preferred early hours of opening and late closure, but the cooperatives were unable to make the arrangement accordingly. Therefore, as an alternative, an attempt was made to provide living quarters to sales staff using the abandoned store rooms constructed during monopoly days.

b. Patterns of Shopping:

Traditionally consumers are used to go to village fairs weekly from the known colonial times. They find that it is convenient to shops once a week as the distances to the normal shops are such that they have to spend more time, and also it is convenient to go for purchases on the week end holidays. It appears that this trend still continues according to a survey conducted in 2002 (*Karunatillake*). The results were as follows:

Patterns of Shopping by Customers.

Variable	Number of responses	Percentage of responses
Weekly	749	68.65
Daily	249	22.82
Monthly	93	8.53
	1091	100.00

Daily purchases are preferred by the daily wage workers and affluent office goers. In the case of cooperative shops, the rush is at the beginning of the month when Samurdhi goods are sold. The purchases are made throughout the day and the customers come to the shops are mainly women and children. During this period queuing is normal as the number of employees is normally consisting of a manager and a salesman. The cooperatives cannot afford to employ more people, as the business during the rest of the month is marginal.

Another growing trend is to have one stop shopping. Office and factory workers would like to have one stop for shopping at a place where they could get all daily needs from one place. Even daily manual workers who purchase daily, would like to have one stop, without going from one shop to the other collecting his needs. Using this as a clue for attracting more customers, some private supermarkets have accommodated banking units, pharmacies, coffee shops and even barbeque stands and laundry facilities under their roof.

Parking facilities and more room for customer area have become attractions for affluent customers in the supermarkets. Therefore, many private supermarkets have leased extra parking facilities. Cooperative supermarkets do not have such congestion normally.

Using mottos for supermarkets focus has become popular among private supermarkets – “on the way home”; “something cheaper”; “fair” etc. however, the cooperatives have not started using any such mottos and slogans indicating their focus or vision.

c) Patterns of Spending by Customers:

As 50% of the population consists of families below poverty line (families earning less than US\$1-2 a day) the purchasing power is less in the rural and semi urban areas. Middle class and affluent families normally live in the urban areas, where there are opportunities for gainful employment and business. A survey (Karunatillake) has revealed the pattern of spending as follows:

Patterns of Spending by Customers for Consumer Commodities.

Variable	No. of responses	Percentage of response
Rs. 200-500	375	34.92
Rs. 100-200	232	21.60
Rs. 500-1000	215	20.02
Rs. Above 1000	142	13.22
Rs. Below 100	110	10.24
	1074	100.00

The merchandise policies and the assortment have to be adjusted to suit the buying patterns of the community. More than 75% of the consumers buy things below Rs. 1000 at a time which means while carrying a wide range of assortment, the packaging has to be in small quantities and smaller sizes. On the other hand, bulk buying has better margins and high turnover but the reality in sales is not the same. The MPCs have not known to have considered these aspects in supplies.

Globalisation process has had a great influence in the family system, life styles and consumer behaviour, which in turn has influenced the retail market. With about 1 million workers of Sri Lanka working overseas has changed the family system radically irrespective their origins, whether in the urban localities or rural localities. Major segment of house maids and manual workers are from rural areas. On the other hand, the government policy of decentralising industries into rural areas such as garment factories has also affected the traditional family system. Family members no longer have three meals together, as they are out during day time and depend on the ad hoc arrangements for meals, and with the exposure to foreign cultures, the life styles too have changed into craving for imported consumer goods and durables as well as fashions. The cooperative retailers have not been able to keep up to this change and are confined to traditional retailing of essential commodities supplied in bulk. Very few consumer cooperatives are dealing with consumer durables such as electric items. In some MPCs, there are schemes of providing hire purchase facilities through cooperative rural banks. However, many cooperative are now beginning to provide other consumer services such as funeral services, beauty culture and pre schools.

As a result, many urban consumer cooperatives have collapsed. In Colombo, two largest consumer cooperatives- Colombo North Cooperative Society has been liquidated and Colombo South Cooperative Society Retail business has been leased out to its own employees.

d) Procurement of Merchandise:

Sources of supplies to MPCSSs haven't changed much from the 1970's except the absence of CWE and Food Commissioner as major sources. Throng speech in 1970 has laid down the government policy of centralising the wholesale business with government institutions and the retailing to be undertaken by the cooperatives and private Sri Lankan retailers. In addition, the cooperatives were allowed to purchase from their member producers and sell those locally produced commodities too. In 1972, the Commissioner of Cooperative Development restricted the MPCSSs to sell their commodities outside the area of operation either through their own mode of operations or through any private retailer. Government imposed restrictions on the movement of locally produced essential food items such as rice, chillies and any other grains out of growing areas without any permits obtained from the government thus restricting the supply sources of the MPCSSs too. Government had its own procuring agencies such as CWE, Paddy Marketing Board, Marketing Department, State Trading Corporation etc.

In addition, the MPCSSs were made agencies to many other government corporations such as Salu Sala (selling textiles), Ceramic Corporation, Building Materials Corporation, Fertiliser Corporation, State Trading (General) Corporation, British Ceylon Corporation, Tobacco Corporation, Tractor Corporation, Paper Mills Corporation, Timber Corporation and Paddy Marketing Board Etc. Goods were given on credit on consignment basis, and the MPCSSs enjoyed the benefit of revolving one month's income at a given time.

In addition, there were cooperative producer unions who supplied consumer goods to national federations such as MARKFED and Coconut Producers Cooperative Union as well Sri Lanka Industries Cooperative Union. The commodities supplied by these cooperatives were very limited in number. There were also some MPCSSs which were producing small quantities of vegetables etc. who had links with the MPCSSs in urban areas for retailing.

MPCSSs have been procuring most of their commodities from the private wholesalers from the 1980s, which is undergoing a change at present. Few importers and private suppliers held oligopoly during 1980s and 1990s. However, traditional wholesalers are losing ground to sophisticated marketing companies such as Proctor and Gamble, East West Marketing and Link Marketing. So far, the cooperatives have kept to their old partners, but eventually it is expected that they too would change according to times. Specially, imported food items are subjected to change wholesalers.

Following analysis provides the supply sources to the MPCSSs in 2002:

Purchase of Consumer Commodities by the MPCSSs based on Supply Sources -2002
Rs. Millions.

Supply source	Commodity				
	Rice	Wheat flour	Sugar	Others	Total
State sector	333.1	605.4	308.8	242.2	1489.5
Private sector	1292.7	783.7	1253.7	1767.1	5097.2
Cooperative sector	183.5	378.8	37.3	244.6	844.2
From members	9.2	-	-	23	11.5
Total	1818.5	1767.9	1599.8	2256.2	7442.4

Details of NWP and Western province are not available.

Source Department of Cooperative Development.

"According to above analysis, excepting the North Western and Western provinces which have not supplied information, in the other provinces, 20% of the purchases have been made from the government sector, 68.5% from the private sector, 11.3% from the cooperative sector and 0.2% from the members. When the value of each item is assessed, 10% of rice, 21% of flour, and 2% of sugar has been purchased from cooperative institutions." (Administration Report for 2002 by the Commissioner of Cooperative Development.)

Very few cooperatives have utilised their members potential for supplying commodities to their own cooperatives as seen from the data above. Being a country with different climatic conditions which could be reached within few hours, some times a MPCSSs such as Bandarawela, have dry and humid climate to cold and dry climate within the same area of operation. One area within the same society would produce rice whereas it also has an area which is cold and unsuitable for rice cultivation. The procurement and marketing of rice could be undertaken by the same MPCSSs from its own members, but the farmers at present find difficulties to sell their paddy. There are many MPCSSs who have not looked into the possibilities of internal procurement. Japanese cooperatives were able to generate their own commodities within the area itself during and immediately after the war to provide relief to members.

Procurement strategies of the private supermarkets have changed drastically, optimising on the producers difficulties of disposing their produce – especially agricultural produce. Since the forward contract systems has been popularised by the Central Bank projects focussing on the dry zone, private supermarket chains such as Food City have entered into arrangements with the large scale farmers and syndicates for fruits, vegetables and grains supply, which are collected from the their own producing areas by the supermarket chain itself thus eliminating the middlemen and benefiting from the lower cost. They have started using the strategy to advertise their social consciousness and support given to local farmers which attract consumers. On the other hand, the MPCSS supermarkets depend on the wholesale suppliers more than their own members which was shown in the above source of supply analysis.

Government sponsored regional economic centres have been another source of supplies to cooperatives as well as the private sector. Started at Dambulla as a naturally developed commodity exchange centre for agricultural products, the government has seen the potential and sponsored 4 more centres in the island. Farmers are supposed to be bringing their produce to these centres, where the private and other wholesale buyers come and buy these commodities. In turn, the distribution is made through out the island via these buyers. However, the procurement by cooperatives from these centres is marginal.

The MPCSS lost the government supplies gradually from 1979 itself. First to loose was the State Trading Corporation which was privatised gradually, and the last to loose in 2003 was the CWE, when privatisation started. The MPCSSs clung on the state enterprises to the least demanding they be made to continue as the distribution agents, but the government was under compulsion to open the market to all players and the turn around in supplies came by 1987 when the Sri Lanka Consumer Cooperative Federation was established. The Federation started supplying rice and sugar from the open market to MPCSSs. However, wheat flour continued to be a monopoly of the Food Commissioner until now, with different arrangements, first by the Food Commissioner himself from the imports, and later through the CWE who in turn has given the contract to Prima Company of Singapore to mill wheat and supply flour to MPCSSs through CWE intermediary. This has continued up to 2003, when the government eased the rule to accommodate private traders in addition to MPCSSs for supplies. Thus the MPCSSs lost the monopoly of retailing flour eventually.

Even sugar supplies from the government sugar plantations which was a monopoly of the cooperatives was changed to auctioning or issue from quotas to cooperatives as well as to private sector traders.

As analysed above, picture has changed now to have the private sector as main supplier and without depending on the government agencies.

As matter of common practice, procurement is decided by a purchasing committee consisting of few directors and the sales manager who normally becomes the secretary. The assortment is not decided on the basis of a properly identified assortment of branches, but the requirements as expressed by branch managers and the Samurdhi requirements. The quantity too is decided on ad hoc basis, and sometimes at promptness of the directors. No other stakeholders such as housewives or other types of consumers not represented in the committee. In actual efficient cooperative practice, the member consumers should participate in the process of deciding on the assortment and channels of procurement. Ideally speaking, the procurement should have been on the basis of an efficient assortment policy and also the turnover of the items. Many of these committees would not follow the principle of treating cooperative as a purchasing agent for the consumer.

In order to become competitive, the procurement should be undertaken through assessing of prices and the quality of products offered by various suppliers or manufacturers. For this, the cooperative society requires efficient product information system with supply

sources. It appears that many MPCSSs have not been willing to introduce the information systems due to the dependence on the Samurdhi sales which requires only essential commodities and the Samurdhi recipients are prepared to accept the quality and prices offered by MPCSSs, as they only purchase through food stamps. As majority of MPCSS retail shops are having an assortment below 300 items, they may not feel the importance having an information system.

An experiment conducted by the writer in Uva Province to introduce such an information system failed due to resistance of purchasing committees of the MPCSSs in the Project. The proposed system was simple enough to gather information through newspapers, radio, TV and price lists supplied by various suppliers which is fed into a computer data base by a clerical officer on daily basis. This data would provide the competitive supply sources, prices and even the quality of products, based on which, the purchasing committee could take decisions on the purchases. It has become a normal practice for directors to recommend supply sources and even the prices due to the incentives provided by private sector suppliers. In some places, the purchasing officers or the sales manager decide on the procurement.

On the other hand, in some MPCSSs where the authority has been decentralised to branch committees who are authorised to manage their retail shops, the procurement is normally undertaken by the committee of the branch, which has also led to problems. Firstly, they would not know the cheapest supply source as they are novices and also the prices. Secondly, when they procure in limited quantities, the price would be higher than purchases by the central society if the society activity is not performed efficiently.

e) Pricing:

Since the deregulation of commodity prices by the government after 1977, pricing has become one key factor in determining the market share of retailers. It is also no more a practice of bargaining, but fixed pricing with discounts attached, depending on various factors. Therefore, pricing has become a technical job, which involves cost calculations and market considerations. Fixed prices in the supermarkets and retail shops have become order of the day. Newly established Consumer Affairs Authority is attempting to make price labelling mandatory to the manufacturers.

Pricing in cooperatives depends on some key factors. Normally prices in the MPCSSs are now considered to be equal to private sector if not high due to the financial cost of purchases involved. Many cooperatives are operating on loans or overdrafts which have led to extra cost. During the competition for best MPCSS in 2003, it was found that not a single MPCSS has been operating on its own capital, although some MPCSSs have had enough surplus funds invested unwisely.

Few private sector suppliers have dominated the MPCSSs business, due to their credit sales and commissions. Normally they have three prices: price on cash purchases, purchases for cheques and the purchases on post dated cheques. The variable is up to 30% mark up. Sometimes, they also provide goods on credit, but at a higher price. Such a

purchase is prohibitive to cooperatives, but they procure from these few suppliers as they would be able to distribute these commodities for food stamps under Samurdhi Programme without considering the price. Returned cheques are a normal incident in the process, which is tolerated by the supplier.

New private sector supermarket chains have set a rule for elaborate pricing and even showing bargain prices for the market, which is now become a requirement by the consumer. Village grocers and some private sector department stores have not adopted the condition to their disadvantage. Fixed price has been the norm for cooperatives throughout the history.

Cooperatives have to follow the market irrespective of their cost, if they are to stay in the market. Therefore, many a times, they have not followed ground rules, and the consumer sections do not keep proper margins. The average gross margin they keep is between 8 to 10% which is low in the market.

Pricing in the MPCs is rigid as there is no authority given to retail shop manager for any reduction or change. The change should be authorised by Committee of the MPCs, which normally is reluctant to make any changes fearing losses. As the margin kept is low, the leverage for change is minimal. Sometimes the Department of Cooperative Development intervenes in this aspect and fix the responsibility on the board of directors for any losses. As the product costing is not done normally, the task would become more difficult. In one instance, a retail shop handed over to the branch committee by the central society fixed the price as per the market in the vicinity, without costing it, and incurred heavy losses, due to ignorance of the committee who fixed the price.

The cooperatives have not considered the 80/20 rule either in pricing. In this process, it is necessary to avoid level pricing and adopt a system of varying degrees of pricing depending on the stock turns of a commodity and also a commodity has, to retain the customers irrespective of the price. Even if some products may not have the expected profit or even incur losses, the goods bought along with it may be more profitable and bring overall profit.

Annual sales and seasonal pricing are some of the special occasions the cooperatives fix low prices through an exhaustive approval procedure. Slow moving articles are normally selected for this special pricing. These items are sometimes kept in so called bargain corners for attraction of the customers.

CWE, while running a hypermarket in Colombo suburbs had pricing depending on the bulk purchased by the customers, normally in terms of 3kg and above. Packaging itself barred purchase of lower quantities. Cooperatives tried to adopt pricing on the basis of bulk in the retail shops itself, but ran into problems of accounting as per the system they had. However, such pricing is no more popular among cooperatives. Apparently cooperatives were not following 3 golden rules of Rosenwald from Sears as quoted by Takamura from Kobe Coop. Japan:

- *Purchase cheaply and sell cheaply, but do not let quality levels slip.*
- *Reduce expenses and sell cheaply, but do not let quality levels slip.*
- *Cut gross profits on individual items and sell in bulk, but do not let quality levels slip.*

f) Shop Layout and Display systems:

The average size of a cooperative retail shop is not more than 1600 sq. feet; hence the customer area is normally restricted to about 10% instead of 20% to be fair. Many of these shops have been constructed in 1970s to suit the stocks to be maintained at that time, which required at least two weeks buffer stocks in the anti room or backside room in the shop. At present, many of these back rooms are almost empty. This has become a given condition for a shop lay out.

Shop layouts of the counter sales shops are traditional and stick to the basic barriers between the customers and the commodities keeping a counter in between. The salesman is placed behind the counter who normally stands for serving customers. In more improved counters, the top is made with a Formica top and down below glass shelves are constructed for display of goods. The racks behind the salesman are normally open type, raising up to the ceiling. Some of the valuable items and small items are kept in a covered glass and timber almirah, and they are open whenever a customer wants an item.

In bigger shops, sections are divided into food section, groceries section, textile section, and stationary section. Any agro chemicals and kerosene are kept in a different section normally separated by a wall or a wired enclosure.

In terms of helping to achieve more sales, the bargain counters are placed at the rare end of the store for customers to walk through the store. The notices on bargains are placed normally front customer area. Such strategies are not normally followed by cooperative supermarkets who stick to the conventional lay outs.

There are no sitting facilities for customers and the salesman would normally have stools behind the counter for sitting. Cashier is separated from the rest of the sections and the manager normally works as the cashier too.

In some bigger cooperative convenient stores, attempts have been made to utilise extra space for snack bars and communication facilities such as phone, fax and photo copiers. However, they are very few and negligible in number.

Since many retail shops are somewhat smaller, they are unable to use islands and gondolas. Some of the cooperative supermarkets are using mid floor space for such displays. which has brought fresh and abundance look for the merchandise.

Cooperative supermarkets have learnt the techniques from the private supermarkets in allocating the space. However, there are certain omissions seen in placing the sections

such as frozen food section and vegetable section. In certain shops frozen food section faces sunlight, which would result in consumption of more electricity.

In some cooperative supermarkets, like in the case of private supermarkets, extra shop space is rented out to private companies or individuals running a business of special items that would not hinder the business of the cooperative. Sometimes, detached shelves either open or covered are rented out to private companies for displaying and selling their goods which is undertaken by the cooperative society.

In Coop City type stores, security has been a main concern, but the arrangements of racks and gondolas are not adhering to such concerns that much. Instead, they have placed sales staff along the customers alleys due to which, the staff cost has gone up, negating the idea of a supermarket. Security persons are kept near the cashier, table or at the door. Close circuit television and video cameras are non-existent in cooperative supermarkets.

Customer walking areas along with the display racks and the grocery isles are not planned efficiently in comparison to private supermarkets. As an example, the private supermarkets are using grocery isles for refrigerated shelves for displaying pickles etc.

Check out systems in the cooperative supermarkets are still primitive, where the cashiers use cash registers instead of electronic cash registers with commodity descriptions or computerised coded cash registers with scanning facilities for bar codes. Hence the queuing in the cooperative supermarkets is common and there are delays in checking out. This is due to inability on the part of the cooperatives to modernise the systems for want of investments involved.

Front end lines are traditionally used for candies, snacks and other tiny items for security and better display for impulse buying, which has been adopted by some cooperative supermarkets too.

Placing of goods in the racks and gondolas has been observed through observation of other shops rather than learning from a training programme, hence the basics such as placing wider and heavy items on the lower shelves have not been observed. Placing bulky plastic items on the top of the shelves is a common scene in cooperative shops.

Display of prices is another task elaborately used by the cheaper shops in many ways. Sri Lanka had legislation during 1970s to display prices of essential commodities in every shop for which they have been using chalkboards. This was convenient as the prices changed sometimes. Some others used painted boards. At present, some of the shops are still using these methods, but by and large the price displayed in the commodity bulk itself has become popular. Supermarkets have used the plastic strips in the racks for price display which is common now. Sale prices are displayed in flashily and using colourful tags or flags.

Shops' interior lighting is another area which needs improvements in cooperative supermarkets. Private supermarkets have given a greater importance for colour

combination for each section with spot lights and fluorescent bulbs. Sales floor is generally well lit with soft lighting. Cool and warm lighting is another strategy used for goods display.

g) Sales Strategies:

a) Sampling:

Sampling has gained ground in Sri Lanka in the private sector supermarkets especially in the areas of food items and perfumes. Mobile vans of the leading manufacturers such as Nestle, Unilever and Coca cola arrange promotional campaigns for their products with free samplings. However, this aspect is not yet been adopted by cooperative supermarkets or self help shops.

Free samples are not that common in food items or candies still due to heavy cost. At times, perfume sprays are available for testing but supervised by the sales staff. Sometimes, new products are offered free of charge along with a related commodity.

Demonstration of food preparations and other household and kitchen activities is another feature in some private supermarkets as sales strategy, which is yet to be introduced to cooperative supermarkets. They are still to develop such merchandise in high volumes to get into such campaigns.

b) Frequent buyer strategies:

Some private supermarkets have adopted frequent buyer identification strategies through computer based customer data bases by introducing members cards with codes such as 'trump cards' with discounts on purchases and also tying up with hotels, book shops, real estate companies and departments stores providing discounts. They also attract customers offering prizes through lotteries once they reach certain points. The cooperative supermarkets do not have this facility still.

Some of the private companies have started offering incentive cards known as Nexus with discounts for the purchases and also offering special prices on other consumers' services such as hotels, health clubs etc.

Recently Negombo MPCS, a cooperative in the Colombo suburbs, which operates two supermarkets and few retail shops introduced insurance linked frequent buyer system, by giving the members a pass book to record their purchases, who will be offered a personal accident cover of Rs. 50000 from the Cooperative Insurance Company, which offer insurance cover for death, permanent disability and natural death funeral expenses to the buyer.

c) Dividends on Purchases and Discounts.

Consumer cooperatives do not use computer based data bases on members and the only information base is created manually through the records of members on their purchases using their membership number. The accumulated data is used for offering dividends on purchases at the end of the year based on the allocations proportionately from the profits if any.

Normally discounts are offered on the purchase of large quantities which are considered as wholesale prices. They could be termed as bonus offer too. This has worked from the 1970s and still continuing in the MPCs shops.

In Uva Province, an attempt has been made to introduce payment of participatory dividends on monthly basis, with a limited success.

Few MPCs are in a position to pay dividends to the members for the purchases. In the year 2002 only the MPCs in the Western province have paid dividends on purchases. Position in 2002 was as follows:

No. of Recipients:	3555
Value of the payments:	Rs. 384000.

d) E Commerce:

Advertising and sales promotions through web sites are still to be used by the supermarkets, although some companies selling consumer durables and real estate have already started using the facility for advertising and customer interactions. Home shopping is also yet to be introduced for want of interactive web sites with product information.

Some of the commercial banks have started issuing smart cards in which a customer load an amount of money which he could use for obtaining cash through teller machines and also to use for purchases. However, the banks are yet to provide terminals at the point of sales in the supermarkets.

e) Advertising:

Media advertising has not been a key sales promotion strategy of the consumer cooperatives due to resource constraints faced by them. Not even the national level federations have gone into use TV, Newspapers or the Radio for such campaigns. Some manufacturing cooperative federations such as Sri Lanka Cooperative Industries Union have undertaken such advertising such as 'Ceyesta' mattresses.

So called below the line advertising has been popular among the MPCs. Being regionally located, and without organic linkage to any apex organisation, the MPCs normally participate in the trade fairs and exhibitions locally held. The Department of

Cooperative Development has been organising national trade fairs occasionally. In the years of 1973, 1987, and in 1992, there were such fairs organised in which the MPCSSs participated in a big way. These occasions have created goodwill on consumer cooperatives to become low priced consumer oriented enterprises.

Some of the reorganised consumer shops in Uva Province have started awarding prizes and gifts to best purchaser of the month etc. which created a better image of the cooperative as well as boost sales.

Publication of calendars and sometimes diaries has been adopted by some MPCSSs as a sales promotion strategy. They provide information on the services offered by the cooperatives and also agencies they carry on consumer services.

At the point of sale, consumer cooperatives use price lists, display boards and sometimes plastic stickers for providing information to customers.

Some of the cooperative shops have succumbed to wholesalers' ideas of name boards sponsored by manufacturers who want to advertise their products using part of the name boards of the cooperative retail shops. Although the cost is borne by the sponsor, the display of his product is free of charge.

Another habit maintained for a long time is the product advertising using stickers pasted on the racks by manufacturers. The cooperatives do not mind it as the manufacturers provide some training to sales staff and also concessions on the payment for their products. Therefore, many retail shops look covered with stickers more than displaying the products in the racks and shelves.

Supply of product information to customers by cooperatives is very poor. They do not use print media or electronic media for the purpose, as many of them are still passing through the distribution syndrome. In contrast, some of the private supermarkets have started using video terminals to do their product and service advertising, in addition to print media used through flyers and pamphlets. Large companies such as Unilever use news letters and product information sent to selected frequent customers.

Cooperatives are somewhat ignorant over the use of empty stores for advertising, as many shops have allowed the suppliers to use ceilings, rack frames and upper parts of the shelves to be used for their product advertising. Some marketing companies have volunteered to provide training on shop lay out and display techniques and in return they get the advertising space free of charge. Very rarely a cooperative supermarket rents its walls and shelves for advertising for a fee.

f) Franchising:

In order to achieve high stock turnover, franchising has been used by CWE successfully for sometime. The exercise has also brought some more working capital to the organisation in form of deposits by the franchisees. However, due to the narrow approach

taken and the subsequent privatisation, the system has not been given sufficient attention. One of the reasons is the relationship that is needed for maintaining goodwill of the franchised organisation has been lacking, for this purpose, certain guidelines for pricing, merchandising and assortment.

Countries such as Republic of Tonga have adopted cooperative franchise system to achieve monopoly in the retail market, while maintaining the quality of customer service. Piggly Wiggly Co, Tennessee, USA has developed a system under their Agenda 2000 to upgrade the operations of its franchisees.

As seen here, the main competitor to village cooperative shop has been the village grocer. If the MPCs are sound in working capital, they could treat this new player as an opportunity more than a threat and make them franchisees rather than competitors. Private village grocer has a problem of his supplies at the lowest cost as he is operating alone. This could be a gaining point for the MPCs which deal with bigger bulk and operating in the villages better than private wholesalers. As experienced by the CWE, the cooperative society too.

g) Environmental Campaigns.

With the growing concerns and consciousness on the part of the consumers on the need to protect the environment, they would prefer patronising such places which show interest in that direction. Many private supermarkets have started using bio degradable polythene packing and also started using recycled packing with elaborate mention about it. Cooperatives are yet to enter into this area. However, at least one MPC in Colombo suburbs has started dispatching discarded packing material and polythene for recycling. It has raised considerable income out of this activity. Japanese consumer supermarkets have earned tremendous goodwill among the community as socially conscious and responsible organisations, which have attracted more customers.

A garbage collection and recycling cooperative society has been established some time back in Colombo which has become inactive now for want of buyers for collected material. Instead, some companies have tied up with some paper mills in India for scrap paper and local companies for polythene and metal recycling.

h) Profitability:

Over the years, the profitability has reached very low levels to the extent that store operations have become no more viable. Surplus and deficits from consumer business in MPCs for 2002 is as follows:

Province	Surplus/deficit of consumer business income (Rs. Million)	No. of cooperatives who earned surpluses	No. of cooperatives who incurred losses
North and east	185.2	45	46
North central	11.6	19	09
Uva	(11.5)	02	15
Southern	(56.3)	07	27
Western	(41.2)	16	22
Central	11.3	08	33
North western	(11.8)	23	10
Sabaragamuwa	229.0	06	17
Total	316.7	126	179

Undivided administrative cost has not been included.

Source: Department of Cooperative Development.

As detailed above, 59% of the consumer sections of the MPCs were having losses in 2002. The business has gone down to the level of 1995. When we consider the increase of the prices of the commodities over this period, the actual loss of business in quantitative terms is much more than it appears.

Overall performance of the MPCs in consumer commodities and fuel business has shown following results during last 6 years:

MPCSs – Information on the Consumer and Fuel sales and Profits and Losses 1997-2002

	1997	1998	1999	2000	2001	2002
Multi Purpose Coop. Societies	301	308	311	311	311	305
Wholesale stores	607	669	612	617	616	575
Retail shops	8037	7478	7733	7839	7072	8140
Total sales	25824.4	28919.6	32073.1	33476.9	38221.8	35755.3
Wholesale business	11373.1	12979.2	9412.8	7835.5	9067.7	7840.7
Retail business	8162.4	9248.6	7787.4	7309.8	8759.5	6700.2
Samurdhi business	4386.7	1886.0	4698.9	4597.9	6404.6	5240.2
Other business	1902.2	4805.8	2525.4	4528.8	2743.6	1087.8
Fuel	-	-	7648.6	9128.1	11246.6	14886.4
Sales of the consumer section without fuel	25824.6	28919.6	24424.5	24352.0	26975.4	20868.9
Sectional surplus	692.0	202.0	314.7	334.6	443.6	220.8
Sectional losses	1086.0	288.7	164.4	135.5	60.8	148.3
Sectional profit	(394.0)	(86.7)	150.3	199.1	382.8	72.5
Societies with profit	174	171	182	162	174	
Societies with losses	127	137	129	143	137	

Source: Department of Cooperative Development

Considering the number of MPCs operating at losses as 179 in 2002, except in the case of 1999, there had been a gradual loss of profitability.

(x) Logistics and Information:

Logistics has been one concern in the 1970s when the government agencies supplied goods to cooperatives which were located in different areas. Lorries plying empty in one direction caused heavy overheads and attempts were made to pool the transport and rationalise distribution and also to arrange goods two ways with limited success. Even at present loss making function in the MPCs is the transport section. Previously, as there were no private suppliers and the government manufacturing and importing agencies did not have transport facilities, the cooperatives had to bear the cost.

With the withdrawal of the government agencies from the supplies, the cooperatives could make alternative arrangements with the private marketing agencies for the supplies to the door step using their own transport facilities. Still the cooperatives are using their heavy Lorries purchased during the 1970s to transport small quantities to their branches which adds the cost to the goods.

Transporting commodities from the suppliers would have problems of damages sometimes. The loading and unloading is done through manual labour that normally uses hooks to hold the bags. The damage to the gunny bags is inevitable in this exercise. Vegetables too are transported in gunny bags normally, which damage the produce through stacking and pressing. Recently, there has been an attempt to introduce hard plastic containers for vegetables and fruits, with a limited success due to the heavy expenditure involved.

Information to customers is an important strategy to keep them bound to the organisation and its merchandise. The cooperatives in Sri Lanka have not been making extra efforts to relate to customers other than the members meetings conventionally held. At times, the retail shops have used complaint box system, but now it is being abandoned as there has not been a follow up to complaints and suggestions. Developed consumer cooperatives use newsletters to members to keep them aware of the changing services of the cooperatives as well to receive their responses. Japanese consumer cooperatives have combined this service through the distribution system to Han groups. In the process, catalogue based selling has become popular. Web based information systems are yet to be introduced to cooperatives except few national level business federations.

There has not been any survey conducted in consumer cooperative through questionnaires to members to receive their responses on the services and the management of the cooperative society.

(xi) Organisational Structure of Cooperatives:

a) Joint Buying Operations:

After the reorganisation of cooperatives, the supplies to consumer cooperatives were from the state agencies direct to the MPCSSs. These state enterprises had their own go downs and ware houses through which the distribution was made. In turn, the MPCSSs also had their own go downs and wholesale stores catering to their branch shops and also the registered authorised dealers. As the MPCSS managed the branch shops and the entire retail operation, there were secondary unions only for wholesaling that existed prior to the reorganisation in 1971. The government took action to amalgamate then Colombo Consumers Union and Agricultural Producers Cooperative Union in 1971 and form the Sri Lanka Cooperative Marketing Federation (MARKFED). The idea was for the MARKFED to function as the apex organisation for agricultural cooperatives as well as consumer cooperatives. As the two functions were concentrated in the MPCSS at the primary level, MARKFED is basically the apex organisation for MPCSSs.

However, the scenario changed with the advent of open market economy, and gradually a need arose to have a separate apex organisation for consumer cooperatives in order to replace the state agencies which functioned as suppliers to cooperatives. As a result, Sri Lanka Consumer Cooperative Federation (COOPFED) was formed in 1989.

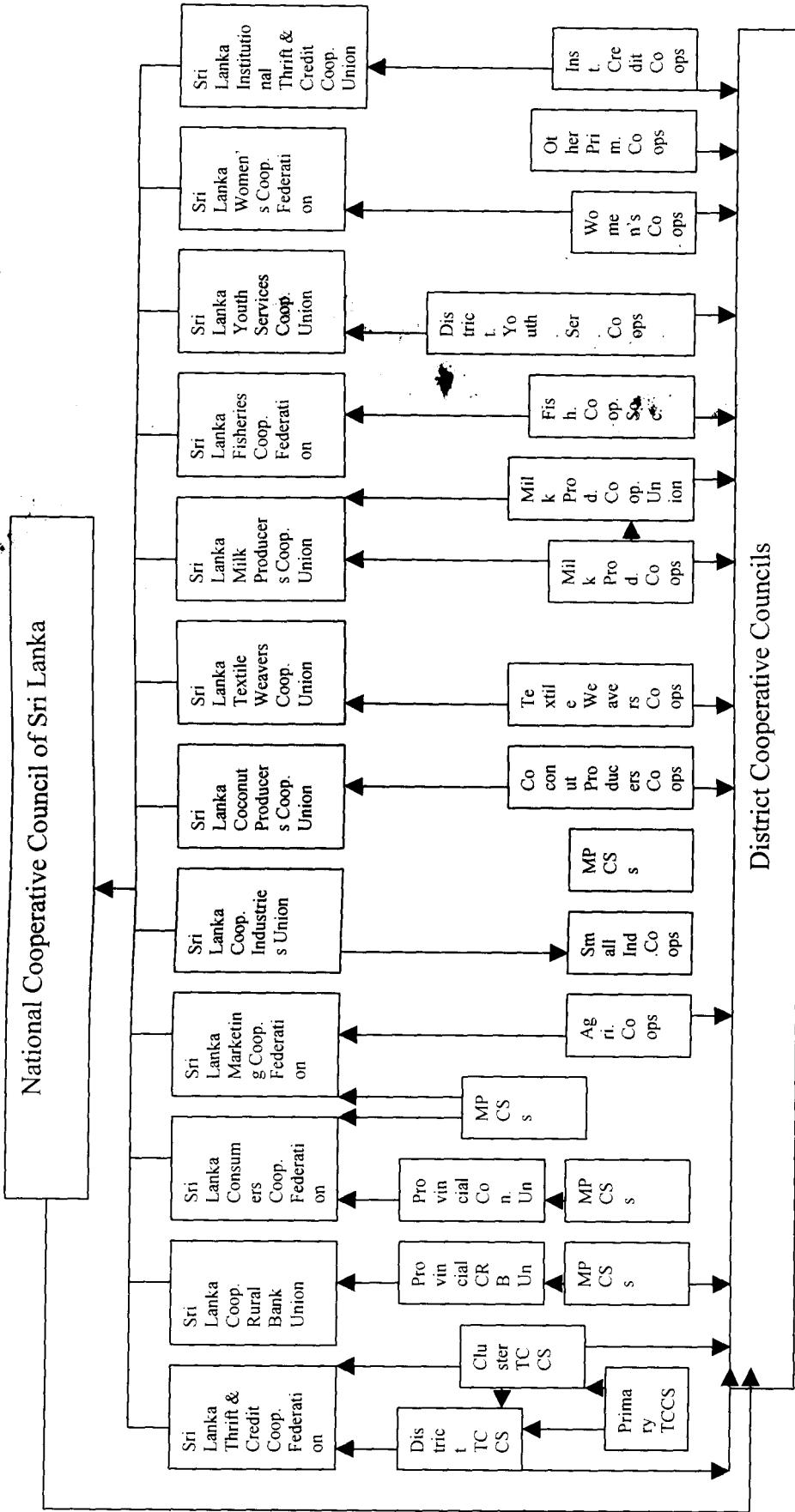
Another development during this period was the formation of provincial and district level Consumer Cooperative Unions. This was the result of the failure on the part of the MARKFED and COOPFED to supply the merchandise required by the MPCSSs. Uva, NWP, NCP, Western, Southern and Central provinces organised such Consumer Unions as secondary level organisation with MPCSSs in the provinces as members. At present, none of these secondary unions are actively engaged in consumer goods supply to cooperatives.

There had been some attempts to introduce joint buying practices by the MPCSSs in the line of Japanese joint buying practices during last decade in Colombo, when a joint buying operation was started by the MPCSSs supported by the Colombo District Cooperative Rural Bank Union. A small office to do the coordination and procurement was organised in the main wholesale market area in Colombo and had a tremendous impact on the market as in the case of COOPFED at the beginning. However, this exercise failed due to non payment of money due for procurement by member cooperatives and also the corrupt practices by some purchasing staff by certain cooperatives.

b) Formal Organisational Structure

The structure of the cooperative movement of Sri Lanka would illustrate the hierarchical relationships among different levels of cooperatives:

ORGANISATIONAL STRUCTURE OF THE COOPERATIVE MOVEMENT IN SRI LANKA.



The structure has adopted a traditional approach of hierarchies in the cooperative enterprise system, where the roles have been defined rigidly. Single purpose cooperatives have their own business federations, which do not relate to each other, and only coordination is undertaken by the ideological organisations- District Cooperative Council at the district level and the National Cooperative Council at the national level. This compartmentalisation has resulted in competition among cooperatives as in the case of consumer shops operated by the MARKFED, COOPFED and some TCCSs.

As the Federations have been taken as separate ventures, there have not been any joint operations, pricing of transactions was undertaken separately. Federations normally operate their own sales and procurement departments and transport systems and wholesale stores or warehouses. Their members buy the commodities from these units and price them covering the cost. In this process, the federations and secondary unions bear heavy overhead costs to maintain the systems and the organisations, which they have to recover from the sales. In contrast, if we consider the systems maintained by the Japanese consumer organisations, the members organise themselves into Han groups and jointly purchase commodities to a greater extent. On the other hand, the primary consumer cooperatives get together and jointly purchase their stocks from the suppliers, which are shared among the members. In such an arrangement, there is no need to maintain such traditional secondary organisations and could have a cost effective and simple procuring system. Japanese consumer cooperatives operate as purchasing agents for members. *“Cooperatives gathered consumers’ demands and took on the true role of purchasing agents for consumers. This position was in direct contrast to manufacturers’ sales agents.” (Takamura- Principles of Cooperative Management)*

Assortment of the secondary and national federations was not based on the members’ demands, but like any other supplier or a wholesaler who tries to sell goods using sales strategies. Therefore, there has not been any possibility of organising joint buying activities together.

Sri Lanka Consumers Cooperative Federation (COOPFED)

COOPFED was established in 1989 and started its business operations in 1999. The initial membership was consisting of 61 primary cooperatives out of which majority were MPCSSs. Paid up share capital was Rs. 857700. At present, the membership consists of 223 cooperatives, out of which one is a provincial consumers’ cooperative union.

During first year, the business increased from Rs. 7.4 million in 1990 March to Rs. 128.89 million in December 1990. By the year 2000, the sales have increased to 477 million. However, an ICA consultant who carried out a review of first years business found that the trend of member MPCSSs turning away from the COOPFED to private suppliers, when the Commissioner of Cooperative Development relaxed the rule of compulsory buying from COOPFED. The decline in the rate of growth started during mid 1990s, due to the crisis of the management of the COOPFED. The business results in 2002 shows the decline in business:

Unit	Turnover	Unit profit/loss (RS. Mill.)
Sugar, and rice wholesale	297.1	13.20
Shops	9.6	1.80
Prima flour distribution	227.4	12.00
Distribution of packed items	18.8	1.00
Prima flour Packing unit	0.5	(0.30)
Distribution of Elephant House drinks	0.1	0.02
Agency projects	2.9	0.40
Total	556.4	27.12

Source: Department of Cooperative Development.

The net surplus earned by the Federation during the year was Rs. 5.75 million.

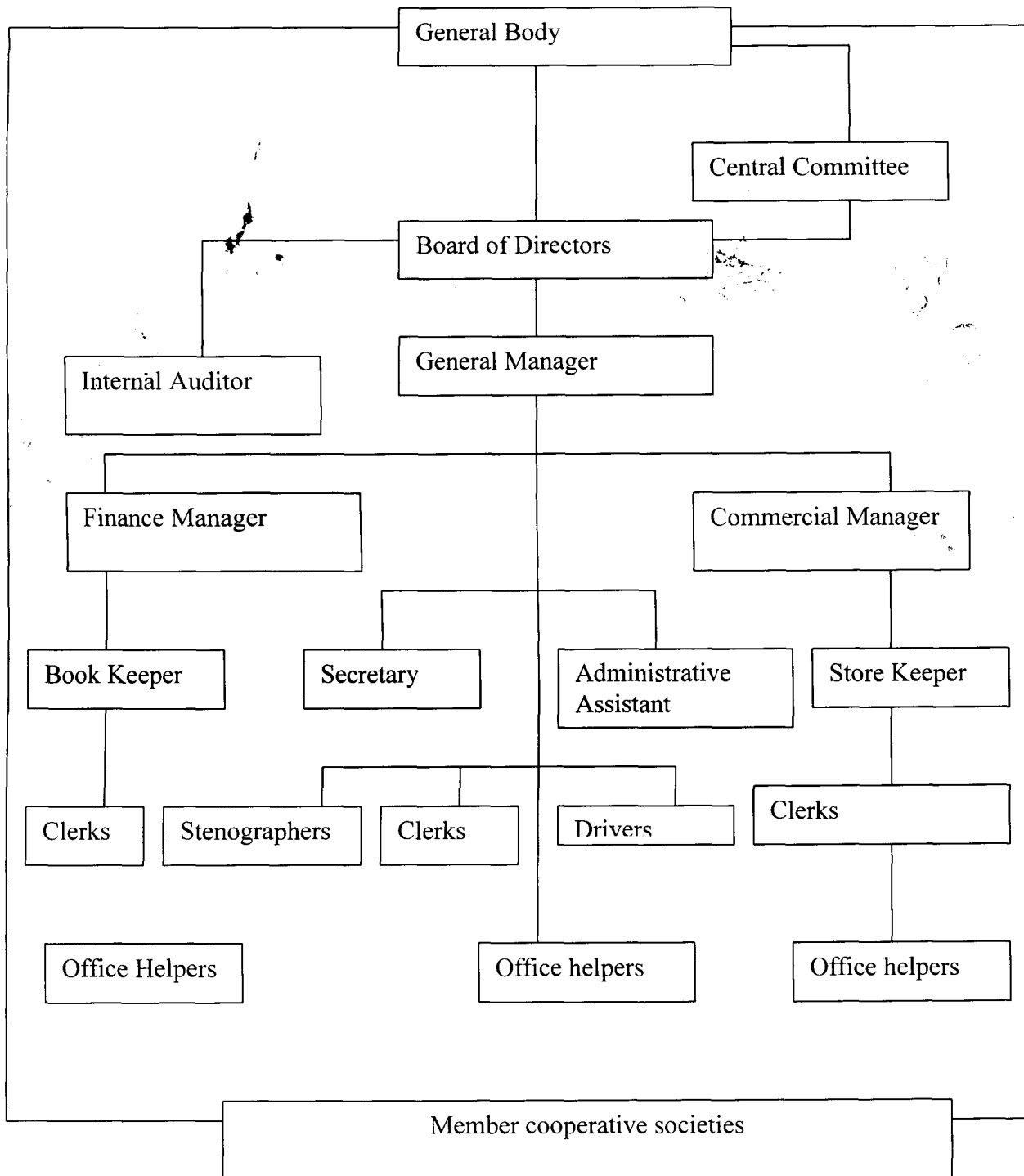
The balance sheet of the COOPFED shows a very weak solvency of the organisation and also a heavy erosion of working capital:

Equity & Liabilities	Rs. Million	Assets	Rs. Million
Shares & reserves	18.0	Fixed assts	16.0
Accumulated losses	62.3	Investments	5.2
	(44.3)	Current assets	140.0
Long term liabilities	98.4	Other assets	137.7
Current liabilities	106.3		
Other liabilities	138.5		
	298.9		298.9

Source: Department of Cooperative Development.

In order to carry out minimum activities, the COOPFED has borrowed Rs. 10 million in 2002 alone from the Treasury Fund maintained by the Department of Cooperative Development. In spite of this attempt, the assets are insufficient to meet the liabilities.

The organisational structure of the COOPFED is as follows:



During the recent years, main income to COOPFED came from the supply of commodities to security forces and for rehabilitation efforts in North and East provinces by the government. However, this arrangement was terminated in 2003, due to which the COOPFED got into problems.

Another issue was the inability to recover the money for commodities supplied to various member cooperatives and also the heavy burden of return cheques of these organisations. Many MPCs themselves were having difficulties to maintain the consumer business profitably.

At present, the COOPFED is promoting a public limited liability company for consumer business so enable to establish a supermarket chain and enter into business in the open market rather than confining itself to members business and government business. The feeling is that the COOPFED could not recover itself, and it would be better to go into voluntary liquidation. The proposed company would have equity capital from the public and not necessarily from cooperative alone. There is also suggestion search for foreign collaboration in the new venture.

Whatever the outcome that may come, it is evident, that the consumer cooperative would have to turn to their own arrangements to procure merchandise from the open market.

Sri Lanka Cooperative Marketing Federation (MARKFED)

The MARKFED was established in October 1973, by amalgamating the Colombo Consumers Union and the Agricultural Producers Cooperative Union. The objective was to serve as the supplier of commodities and other services to agricultural as well as consumer cooperatives. Due to this objective, majority of the MPCs were made members. At present, there are 416 members of the MARKFED.

During 1970s the MARKFED was the main supply source for cooperative sector only second to CWE. With an exposure to an experimental project on agricultural marketing by the ILO Project with the Cooperative Management Services Centre (CMSC – later called SLICM) MARKFED undertook exporting spices and tea as well as betel on monopoly basis. In turn, some consumer commodities such as canned fish, dried fish, potatoes etc. were imported to be supplied to cooperatives. In addition, it took over the procurement vegetables and fruit through its collection centres located in various parts of the country and conducted an auction in Colombo. There were also paddy mills set up in the dry zone to undertake processing of paddy and distribute rice among consumer cooperatives and also sell through the outlets of the MARKFED.

In addition, MARKFED has been operating few fuel stations in Colombo and Jaffna.

With the liberalised market policies of the government from 1977, the MARKFED gradually lost the quotas for exports and also the collection and supply of vegetables to cooperatives and private wholesalers was lost by late 1990s. As in the case of COOPFED, it has started the supply of consumer commodities to government hospitals

in the absence of the Marketing Department which was dismantled in 1990s, but gradually lost that business too.

Lately, it has started supplying commodities to security forces too.

At present, MARKFED supplies spices, potatoes, chillies, rice and few canned items to MPCSSs, operate fuel stations and few shops at Colombo, Anuradhapura and Jaffna, rice mill, and paddy purchasing from the farmers.

Business results of 2002 would provide a clear picture of the size of business carried out by the MARKFED:

Business unit	Turnover (Rs. Million)	Unit profit/loss
Wholesale & retail business	325.3	8.4
Marketing of rice	19.4	(0.3)
Fuel business	167.2	1.3
Total	511.9	9.4

Source: Department of Cooperative Development.

The MARKFED no more functions as a major supplier of merchandise to cooperatives. It does not even function as an important source of agricultural marketing for cooperatives.

The balance sheet for 2002 indicates the weak position of the MARKFED:

Equity & Liabilities	Rs. Million	Assets	Rs. Million
Members shares & reserves	43.0	Fixed assets	19.3
-accumulated loss	74.8 (31.8)		
Long term liabilities	59.4	Investments	9.0
Current liabilities	91.9	Current assets	91.2
Total	119.5	Total	119.5

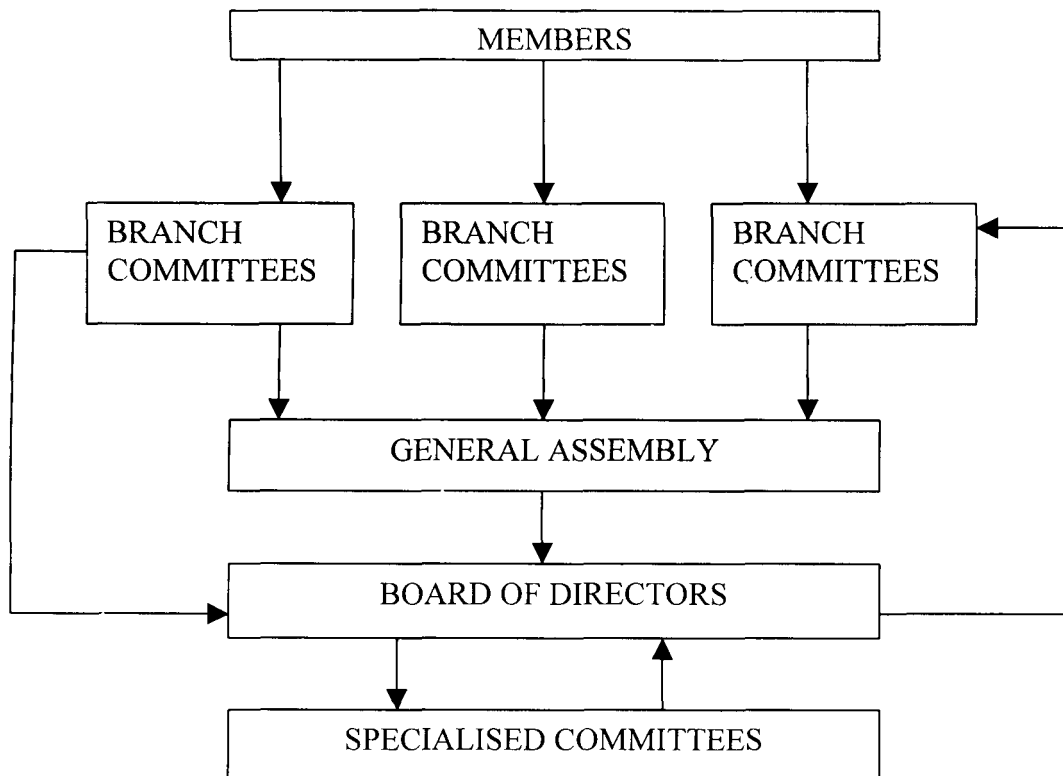
Source: Department of Cooperative Development.

Liquidity position of the MARKFED is very weak and the working capital has got eroded badly. MARKFED has borrowed Rs. 15 million from the Trust Fund maintained by the Commissioner of Cooperative Development in 2002 alone to meet the needs of the working capital badly needed.

(xii) Governance System of Consumer Cooperatives.

Governance system of the MPCs and other consumer cooperatives is governed by the Cooperative Act No. 5 of 1972, which is the main legislation and subsequently, Cooperative Statutes of each province as the subject of cooperation has been devolved to provincial councils in late 1980s. The Cooperative Rules formulated under the Act of 1972 have become more or less obsolete since provincial councils have formed their own rules. Main Act and the Rules are only applicable to national level unions and federations which are supervised by the central Registrar of Cooperatives. However, except in the case of certain provisions in the main law for intervention by the Registrar in the event of any irregular practices by the boards of management and also acquisition and disposal of assets by the management of cooperatives, the main statute for corporate governance in the cooperatives is the by law approved by the general body of the members.

Governing System of the MPCs.



Present governance system of the MPCs is a centralised system where major decisions are taken by the board of directors consisting of 9 members elected by the general body once in three years. The number of delegates to the general body is restricted to 100 irrespective of the size of the membership. At present, average membership of MPCs is 12269. The representation is 122:1 which is not satisfactory. If compared with the representation of consumer cooperatives in Japan, one in every 10 members of the Han group would become a representative in the general body. In the absence of a direct

democracy in a cooperative society, the representation should be made along with the decentralisation of authority. In the case of MPCSSs, each MPCSS has an average of 23 branches.

Branch committees, under the by law, have only supervisory powers over the branch shops and the staff and their specific function confines to recommending members loan applications, appointment of delegates to the general body as specified by the MPCSS, and the enrolment of members. Many of these 'branches' have been independent MPCSSs before the reorganisation of cooperative societies, and enjoyed direct democracy. Now they have been relegated to subordinate position to a board of directors the members hardly know, hence have become inactive in their role. Very few branch committee meetings are held, even if they are held, it is for the purpose of recommending loans etc. The branch shop, the main enterprise in the village is managed by the centre.

The business functions such as procurement, disposal of empties, finances, staff discipline and recruitment are supported by specialised committees consisting of few board members each. Respective manager dealing with the subject functions as the secretary to the committee. Once the recommendations are given, the board of directors normally approves the decisions. The entire structure of these committees centres around the board members. Such a system tends to have narrower approaches to the issues. Normally, large organisations such as MPCSSs should incorporate, in addition to directors, actual stakeholders for taking decisions. As an example, in order to determine the merchandising policies or the assortment, the MPCSSs should incorporate representatives of housewives or consumer organisations into committee in addition to directors and few branch representatives.

As regards specific functions of the committees related to consumer business, some of the MPCSSs have consumer committees where as some of them term as purchasing committees. The purchases are supposed to be undertaken on the basis of the requests for commodities sent by the branch managers in the prescribed form on the basis of the assortments and the maximum and minimum limits of the stocks fixed for the branch. The purchasing manager or the sales manager is required to provide the prices and the sources of supply so that the committee would take a decision on the purchases. When necessary, the samples too are brought to the committee table. Although this may seem ideal, many a times, there have been violations to accommodate requests of the directors on the sources and the prices of supply. In some other cases, the purchasing officers take the upper hand in decision making. The quality and quantity too are decided on the requisitions and the opinions of the sales staff. These committees normally meet once a week.

Under the existing cooperative laws and the by laws, the Registrar does not have power to nominate directors or to supersede the BOD without going to the general body. It is also stated that once a person is elected as a member of parliament or a local authority, s/he would not have right to remain a director of the MPCSS. Therefore, there are safeguards in the law to preserve the autonomy of cooperatives. However, in the actual practice, politicisation has crept into the elections in the MPCSSs as it is seen as a power

base in the village. As the branch general bodies are more or less defunct, in spite of legal requirement to hold meetings, the political parties bring their members to the front at the time of elections and nominate their delegates in order to elect a BOD to their will at the general meeting. Change of government has had an influence in the change of management of the MPCSSs, and the elections have had clashes among the parties, which led to court cases sometimes. During, 2002 elections of the branch committees, 52 societies had to obtain police intervention and there were 7 court cases. There were also 23 incidences of breach of law and order. In the BOD elections, there were 24 instances where the police intervention was sought, 6 complaints to the police and 7 cases filed in courts.

As a result, majority of the members of the BOD are politically inclined and propagate political will at the cooperative societies. They are not necessarily the actual stakeholders of the MPCSSs. This situation has resulted in the alienation of members, lack of interest in looking after the members' services, election of incompetent leaders and corrupt practices in purchases, distribution and other decision making in regard to the assets of the MPCSSs. Eventually these results in the decline of business in the MPCSSs.

Other cooperatives providing consumer services inclusive of retail business- TCCSs, School Cooperatives, Stores Cooperatives and other consumer cooperatives observe direct democracy by electing the management committees at the general meeting of the individual members. Therefore, the governance system in these smaller types of cooperatives is more democratic and the members have a direct control over the affairs of their cooperative.

In the single purpose smaller type of consumer cooperatives, all decisions are made by the management committees including the assortment, sources of purchases, price range and the disposal of outdated commodities. They are normally assisted by the manager of the society.

(xiii) Strategic Alliances with Cooperatives Outside:

In the field of retailing, there has not been any alliance with retail chains or other types of companies or cooperatives for business networking. Consumer cooperatives in Sri Lanka depended on the local importers and suppliers. Some of them are manufacturers of consumer goods or the agricultural cooperatives or private traders who either import or locally procure goods from the open market. Prior to liberalisation of the economy, the main source of supply was the government corporations such as CWE, Salu Sala, and many branches came under the State Trading Corporation.

There has been a long term arrangement between the NAFED in India and the CWE to procure agricultural commodities such as potatoes, chillies and other spices for distribution among cooperatives in Sri Lanka. Some other cooperatives and the Ministry of Cooperatives tried to establish business relations with NAFED, but could not succeed due to the arrangements NAFED had with the CWE.

However, during 1970s, the National Cooperative Council of Sri Lanka has become a shareholding member of the ICA sponsored International Cooperative Trading Organisations (ICTO) for importing goods from other countries, but it failed without take off. Eventually ICTO got liquidated.

Another attempt was made through the ILO-COOPTRADE Project during 1977-1980, when the ILO has organised several national and regional workshops, to explore the possibility of strategic alliances. However, the emphasis was the export of local products, more than the imports. After few such exports, the experiment failed.

The COOPFED has made an attempt to work with the Fair Price cooperative supermarket chain for a joint venture, import of goods and technical collaboration, but the proposal was not succeeded. In another attempt, the Wayamba Cooperative Group tried to build relations with the cooperatives in Maharashtra, India during 2000, which has also failed. Instead, an arrangement has been made with the Maharashtra Consumer Cooperative Forum to exchange of experiences in consumer cooperatives by mutual visits by leaders groups. This has not culminated any joint ventures or business alliances so far.

With the accelerated globalisation process and the WTO arrangements, there are tremendous opportunities created for consumer cooperatives to establish strategic business alliances with other countries not only for merchandising but also for technical collaboration and capitalisation. As Sri Lanka has relaxed the legislation on foreign investments, there is a possibility for joint ventures in the consumer industry. Pizza Hut, KFC and McDonalds have entered into food market already. Private sector supermarkets are deriving technical input from overseas consultancy agencies and supermarket chains already.

As a response to globalisation process and in order to protect the regional economic interest, SAARC organisation has been formed and there are trade agreements signed between SAARC member countries and Sri Lanka. One of the most important agreements has been the SAFTA agreement signed between India and Sri Lanka where some 2000 commodities have been subject to liberalisation. Private sector supermarkets are already making use of this arrangement, but the cooperatives are to enter into this still.

During the ICAROAP sponsored Cooperative Ministers Conference held in Colombo in 1994, cooperative leaders from the governments and cooperative movement from Bangladesh, India, Nepal, Pakistan and Sri Lanka have signed an MOU and sanctioned a constitution for a SAARC Cooperative Forum, but it has not been made operative still. Trade alliances are a subject in the constitution.

In the given scenario of the consumer industry in Sri Lanka there are many possibilities legally and organisationally, to form alliances:

- Venturing into joint operation of supermarkets;

- Consumer goods supply arrangements;
- Establishment of import and wholesale agencies such as MAKRO in Thailand;
- Joint ventures in food industry;
- Establishment of a marketing organisation jointly;
- Technical collaboration on the retailing, wholesaling, supermarket management;
- Sister cooperatives MOU.

(xiv) Human Resource Development in Cooperatives:

Characteristics of the Human Resources in Consumer Cooperatives:

The members, leaders and employees are the main stake holders of consumer cooperatives. The development of these human resources should relate to the needs arising out of their perceptions, skills to perform their roles and the business environment of cooperatives.

Breakdown of membership is given below:

Primary Cooperative Societies membership by province -2002

Type of Society	N/E	NCP	Uva	South.	West.	Central	NWP	Sabar Agam.	Total	
01	MPCS									
	MPCS	575626	252141	219794	443182	958672	195083	539000	558600	3742098
02	Consumer									
	Other Cons.	-	-	6321	2308	426	9295	-	4927	23277
	Estate stores	-	-	212	-	245	168	130	-	755
03	Thrift & Credit									
	SANASA (institutional Employees)	1518	4031	3274	6323	16235	5114	n.a.	3173	39668
	SANASA (Community)	61209	21924	38029	149159	136402	82019	120000	74051	682793
	SANASA Banks	-	-	-	30443	75939	3581	n.a.	32247	142210
	Others	8220	-	-	21002	390	825	-	-	30437
04	Coop. Rural Banking Soc.									
		-	-	-	-	3010	3200	-	-	6210
05	Agricultural & Livestock									
	Tea	-	-	-	2469	140	-	-	-	2609
	Rubber	-	-	75	68	1821	-	20	1976	3960
	Coconut	-	88	1187	60	1243	-	3600	185	6363
	Palmyra	27058	-	-	-	-	-	-	-	27058
	Agri. Productivity villages	-	145	956	671	77	596	300	120	2865
	Other Agricultural	-	1563	1733	1298	405	-	2000	-	6999
	Livestock-milk	7072	12901	4079	206	400	19709	5500	4508	54375
	Other livestock	8928	235	-	55	221	-	3350	905	13694
	Fisheries-Fresh water	4219	1170	1463	1179	1810	1180	150	74	11245
	Fisheries-Marine	42007	-	-	13170	6364	-	8600	-	70141
06	Industries									
	Textile	2391	216	26	-	1546	13773	450	8031	26433
	Carpentry	236	-	78	-	184	84	50	38	670
	Pottery	169	-	54	318	-	-	200	117	858
	Coir	60	-	-	1817	-	110	30	14	2031
	Ready made garment	-	-	-	-	51	20	-	-	71
	Others	37	-	114	2152	1063	940	150	-	4456
07	Hospitals									
		66	-	-	5672	1599	-	1800	-	9137
08	Housing									
		610	-	1818	5017	1762	13640	300	22210	45357
09	Transport									
		443	84	-	-	728	-	70	-	1325
10	Labour									
		505	-	45	61	2364	340	100	65	3480
11	School									
		15181	10066	22294	33832	12464	65639	24000	33904	217380
12	Youth services									
		38239	47248	45667	28287	63816	76416	78000	47953	425626
13	Welfare									
		2813	-	-	275	812	-	1600	252	5752
14	Self employed									
		171	-	-	1090	9441	-	4400	-	15102
15	Others									
		535	-	2887	165	44187	219	4000	-	51993
	Total	797313	351812	350106	750279	1343817	491951	797800	793350	5676428

It appears that most of the members and leaders are basically of middle age, if not elderly and also literate enough to read and writing. Majority of the members are farmers. Their

understanding of the business is marginal. Women's participation at the primary societies is fairly satisfactory:

Membership in consumer cooperatives by gender -2002

Type of primary coop. society	membership	
	Male	Female
Multipurpose Coop. Societies	2027054	1176044
Other consumer cooperatives	7813	3848
Estate stores coop. societies	8251	3990
Thrift & credit coop. societies (community based)	287093	275700
School cooperative societies	102815	90565

However, when it comes to branch committee level of the MPCs, the participation of women has become marginal:

Multi Purpose Cooperative Societies – Branch Committees and General Body Delegates by Sex -2002

Description	N/E	NCP	Uva	Southern	Western	Central	NWP	Sabara gamuwa	Total /Averag percent	
No. of branches	1401	423	417	1006	1229	551	993	894	6	
No. of branch committees	1267	423	252	987	1008	450	n. a.	773	5	
No. of committee members elected	5244	2060	2294	8883	8045	n. a.	n. a.	4735	31	
	Female	391	339	303	1172	1417	n. a.	n. a.	975	4
	Male	4853	1721	1991	7711	6628	n. a.	n. a.	3760	26
Female/Male percentage	Female	7.5	16.5	13.2	13.2	17.6	n.a.	n. a.	20.6	1
	Male	92.5	83.5	86.8	86.8	82.4	n. a.	n. a.	79.4	8
No. of delegates to general meeting	2235	3027	1444	3384	*2103	n. a.	n. a.	1855	14	
	Female	196	208	355	281	63	n. a.	n. a.	330	1
	Male	2039	2819	1089	3103	2040	n. a.	n. a.	1525	12
Female/Male percentage	Female	8.8	6.9	24.6	8.3	3.0	n. a.	n. a.	17.8	1
	Male	91.2	93.1	75.4	91.7	97.0	n. a.	n. a.	82.2	8

*Only Kalutara District.

The gender and age structure of the board of directors of the MPCSSs were as following:

Members of Board of Directors of MPCSSs by Sex, Age Group
and Province -2002

Age group (yrs.)	N/E	NCP	Uva	South.	West.	Centr.	NWP	Sabara gamuwa	Total
18-26 Female	01	02	-	01	-	02	n. a.	-	06
Male	10	06	-	05	-	02	-	-	23
	11	08	-	06	-	04	-	-	29
27-35 Female	05	05	-	04	-	13	n. a.	13	37
Male	44	12	-	51	04	48	-	31	190
	49	17	-	52	04	61	-	44	227
36-44 Female	10	03	-	08	07	11	n. a.	10	49
Male	115	25	01	72	33	36	-	25	307
	125	28	01	80	40	47	-	35	356
45-53 Female	07	11	12	20	04	14	n. a.	11	79
Male	178	84	40	76	70	96	-	36	580
	185	95	52	96	74	110	-	47	659
54 & above Female	01	02	23	01	03	15	n. a.	-	59
Male	169	44	37	10	129	55	-	40	470
	170	46	60	11	132	70	-	40	529
Total Female	24	23	49	31	14	55	n. a.	34	230
Total Male	516	171	64	214	236	237	-	132	1570
Total Female & male	540	194	113	245	250	292	-	166	1800
% of Total of each Province – Female	4.44	11.86	30.97	12.65	5.60	18.83	n. a.	20.48	12.80
Male	95.56	88.14	69.03	87.35	94.40	81.16	-	79.52	87.20
Age group (yrs.)	N/E	NCP	Uva	South.	West.	Centr.	NWP	Sabara gamuwa	Sri Lanka
18-26	2.03	4.12	-	2.45	-	1.37	n. a.	-	1.66
27-35	9.07	8.76	-	21.22	1.60	20.89	n. a.	26.50	12.61
36-44	23.15	14.43	0.88	32.65	16.00	16.91	n. a.	21.08	19.79
45-53	34.26	48.96	46.62	39.18	29.60	37.67	n. a.	28.31	36.63
54 & above	31.48	23.71	53.09	4.49	52.80	23.97	n. a.	24.10	29.40
	100.00	100.00	100.00	100.00	100.00	100.00	n. a.	100.00	100.00
Age group (Yrs.)	N/E	NCP	Uva	South.	West.	Centr.	NWP	Sabara gamuwa	Sri Lanka
18-26 Female	9.09	25.00	-	16.67	-	50.00	n. a.	-	17.86
Male	90.91	75.00	-	83.33	-	50.00	-	-	82.14
27-35 Female	10.20	29.41	-	1.92	-	26.15	n. a.	29.55	16.30
Male	89.80	70.59	-	98.80	100.00	73.85	-	70.45	83.70
36-44 Female	08.00	10.71	-	10.00	17.50	23.40	n. a.	28.57	13.76
Male	98.00	89.29	100.00	90.00	82.50	76.60	-	71.50	86.24
45-53 Female	3.78	11.58	23.80	20.83	5.40	12.73	n. a.	23.40	11.99
Male	96.22	88.42	76.00	79.17	94.60	87.27	-	76.60	88.01
54 & above Female	0.59	4.35	33.33	9.10	2.27	21.43	n. a.	-	8.51
Male	99.41	95.65	66.67	90.90	97.73	78.57	-	100.00	91.49

Source: Department of Cooperative Development

It appears that majority of the directors belong to an age group 44-53 years followed by 54 years and above. Ratio of gender participation is 12.80 females to 87.20 males. Considering the national population ration this situation is unsatisfactory.

On the other hand, the youth participation in the leadership positions is also unsatisfactory. The percentage of directors under 35 years is 14.27%.

The leadership of the MPCSSs by vocation is as follows:

**Members of Board of Directors of MPCSSs by Profession
And Designation -2002**

Profession Group/position	NCP	N/E	Uva	South	West.	Centr.	NWP	Sabara gamuwa	Total	%
Farmer	103	317	17	51	30	51	n. a.	02	571	31.72
Carpenter	-	06	-	03	03	04	n. a.	-	16	0.89
Mason	-	05	-	01	02	05	n. a.	-	13	0.72
Clerk	-	32	01	29	13	18	n. a.	15	108	6.00
Coop. Inspector	07	06	05	09	35	19	n. a.	12	93	5.17
Teacher	10	34	10	28	08	26	n. a.	28	144	8.00
Technician	-	05	-	02	-	01	n. a.	-	08	0.44
Accountant	-	01	-	05	01	06	n. a.	01	14	0.78
Administrative Officer	02	22	06	-	04	01	n. a.	01	36	2.00
Lawyer	-	-	-	02	01	-	n. a.	-	03	0.16
Doctor	-	-	-	-	01	-	n. a.	-	01	0.06
Self-employed	08	71	25	88	73	34	n. a.	16	315	17.50
Unemployed	11	-	48	13	29	50	n. a.	17	168	9.33
Priest	-	-	-	04	-	-	n. a.	-	04	0.22
Others	53	41	01	10	50	77	n. a.	74	306	17.00
Total	194	540	113	245	250	292	n. a.	166	1800	100.00

Source: Department of Cooperative Development.

Majority of the directors comes from the farming community, and the second place goes to the ones who are self employed. Unemployed directors come to third position out of the classified vocations. The inference one could make is that the leadership is vulnerable to political affiliations as the number of directors who are gainfully employed are in minority. The politicisation has been one of the main obstacles for better governance of the MPCSSs.

In regard to education level of the leadership too is very low in comparison to other business sectors- mainly the private sector when the average educational level of the farmers and self employed are considered.

In the given circumstances, the competitiveness of the consumer cooperatives should become low as the business competencies are marginal in the leadership. As per the

existing legislation, the Boards too have executive powers, and they tend to take routine business decisions too.

Except in the MPCSSs, number of persons employed is marginally smaller to the extent they employ handful of employees. The employees' position in 2002 is as follows:

Statistics on Employees of Cooperative Societies in Sri Lanka -2002

Type of Cooperative society	Number of Employees		Total No. of Employees
	Females	Males	
<i>Provincial Primary Cooperative Societies</i>	15723	21729	37452
Multi Purpose	12466	17568	30034
SANASA	1831	1743	3574
Agricultural	609	1442	2051
Industrial	325	444	769
Fisheries	105	207	312
Hospital	211	134	345
Others	176	191	367
<i>All Island Primary Cooperative Societies</i>	589	449	1038
Institutional SANASA	406	224	630
Other cooperative societies	183	225	408
<i>Secondary Level Provincial Coop. Unions</i>	603	765	1368
<i>National Level Cooperative Unions</i>	213	434	647
Total No. of Employees	17128	23377	40585

Sources: Department of Cooperative Development.

Female staff members are lesser in number, but it relates to the general employment pattern in the country. Out of a total of 40585 employees, 30034 are in the MPCSSs. Therefore, the career path of the employees other than the MPCSSs is narrow in other types of cooperatives.

Even in the tertiary cooperative organisations, the number of employees is limited:

Employment in Cooperative Societies at National
Level by Level of Jobs and Sex -2002

Cooperative Union	Managerial		Supervisory		Operational		Total		Total No. of Employees
	F	M	F	M	F	M	F	M	
National Coop. council of Sri Lanka	01	04	07	11	32	24	40	39	79
Sri Lanka SANASA Federation	01	03	02	40	41	31	44	74	118
Sri Lanka Cooperative Rural Banks Federation	01	04	02	-	-	02	03	02	05
Sri Lanka Consumers Coop. Federation	01	03	01	04	21	19	23	26	49
Sri Lanka Cooperative Marketing Federation	03	06	03	14	68	69	74	89	163
Sri Lanka Industries Cooperative Union	01	06	-	06	01	119	02	131	133
Sri Lanka Textile Cooperative Federation	-	02	01	-	-	01	02	03	05
Sri Lanka Coconut Producers Coop. Union	01	02	-	-	04	12	05	14	19
Sri Lanka Milk Producers Coop. Federation	-	01	-	-	03	04	03	05	08
Sri Lanka Cooperative Women's Federation	-	-	-	-	-	-	-	-	-
Sri Lanka Fisheries Coop. Union	01	-	-	-	02	-	03	-	03
Sub total	10	27	16	75	172	281	200	382	582
Sri Lanka Youth Services Coop. Union	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	14	51	65
Grand total							214	433	647

Source: Department of Cooperative Development.

However, majority of the employees are employed in the consumer cooperative business. Therefore, the career path enforced by the Cooperative Employees Commission (CEC) is biased towards the MPCSSs. Promotional prospects are determined as per the employee structure of those societies.

Owing to the limited number, the Human Resource Management (HRM) practices are not in keeping with the times, but they are guided by the guidelines issued by the CEC through gazette notifications and circulars from time to time. The MPCSSs which are under transition and look forward to adopt modern business practices find these conditions are hindering the change.

Right now, the situation is unclear on the validity of the CEC, since it has been decentralised into provinces and the national level CEC has been suspended. It has been an administrative decision of the central government, but no alternative arrangements to continue with the Cooperative Employees Commission Act No. 12 of 1972 has been made although it has not been repealed by the parliament as yet.

At present, there are three employee levels which have been identified by the CEC:

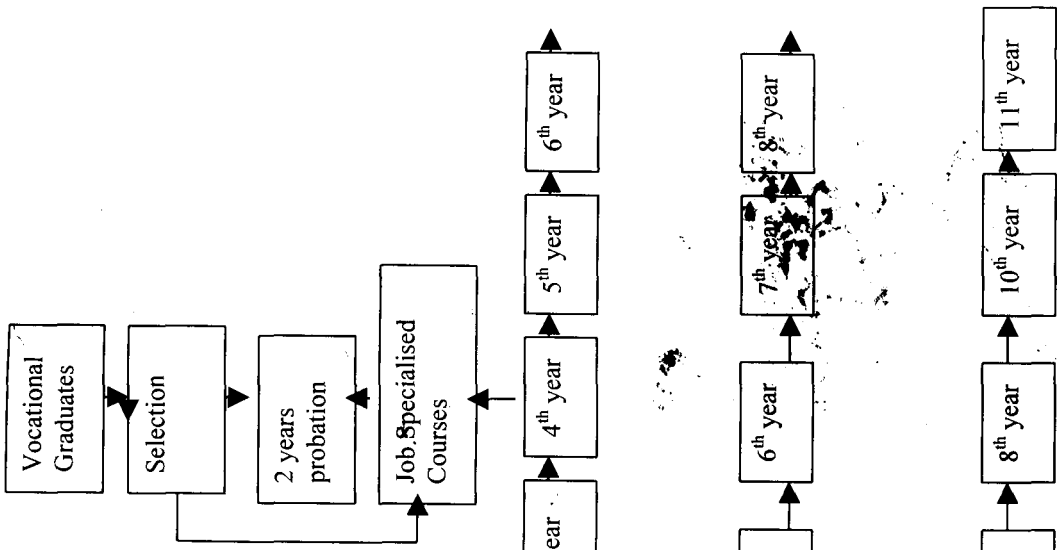
1. Operational level
2. Supervisory level
3. Managerial level

There are about 30 common types of jobs in the MPCSSs, which have been subject to a logical career path.

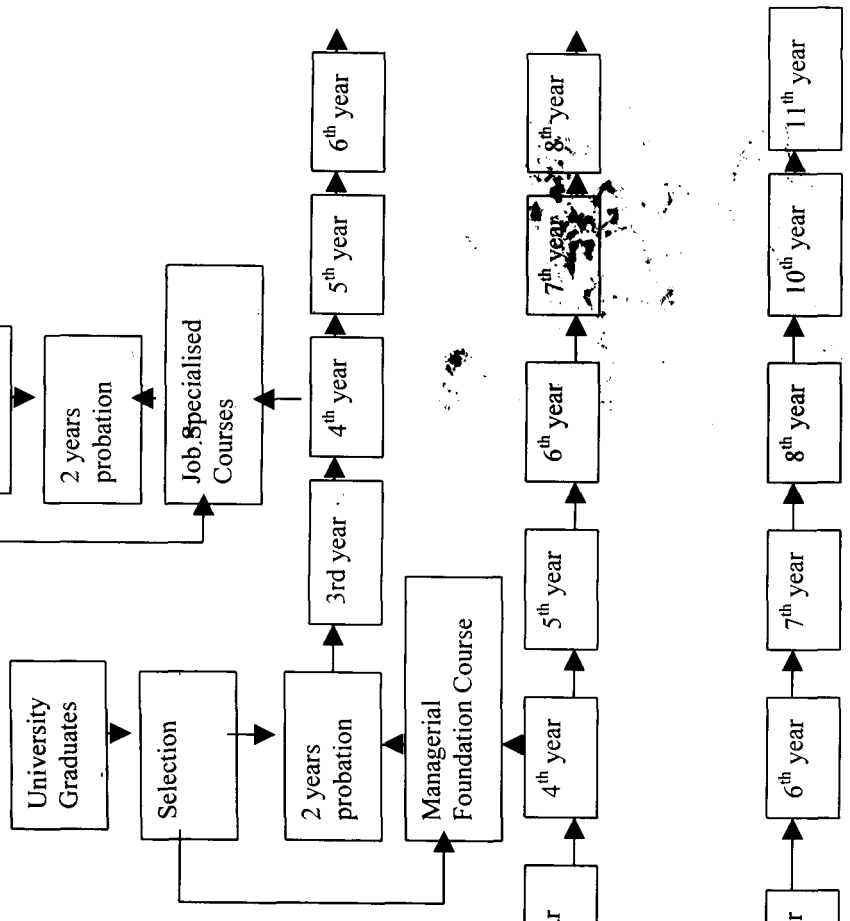
Career path of the staff of the MPCSSs is as follows:

CAREER PATH FOR COOPERATIVE EMPLOYEES.

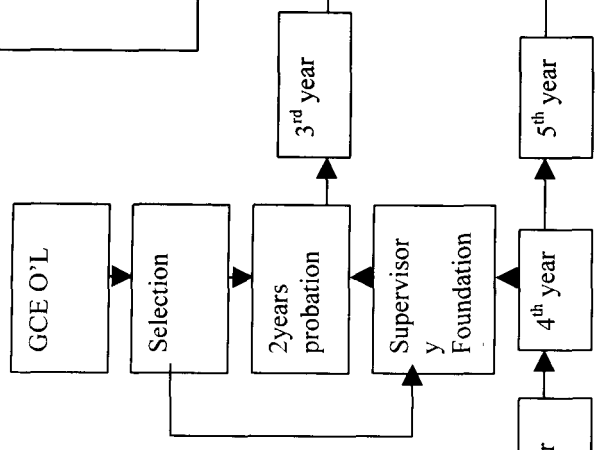
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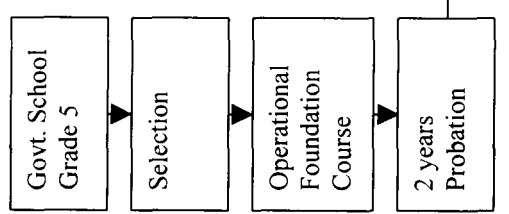
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ENTRY POINT 2



ENTRY POINT 1



The Presidential Commission on the Cooperative Movement of Sri Lanka has identified three activity areas related to HRD in the cooperative sector:

1. Improved performance on the present job of the individual
2. Preparation of an individual for an identified job in the not too distant future and
3. General growth related to any specific job.

In order to pursue these activities in the consumer cooperatives, the arrangements in Sri Lanka had its origins in the Department of Cooperative Development through the School of Cooperation which was set up in 1943. As a parallel structure, the Department had also organised district level cooperative education centres, which undertook training of employees and members basically. When the Ceylon Cooperative Federation was formed in 1955, these Centres were handed over to the Federation and later to District Unions gradually. Financially they were supported by the Department from the funds generated from the Cooperative Development Fund.

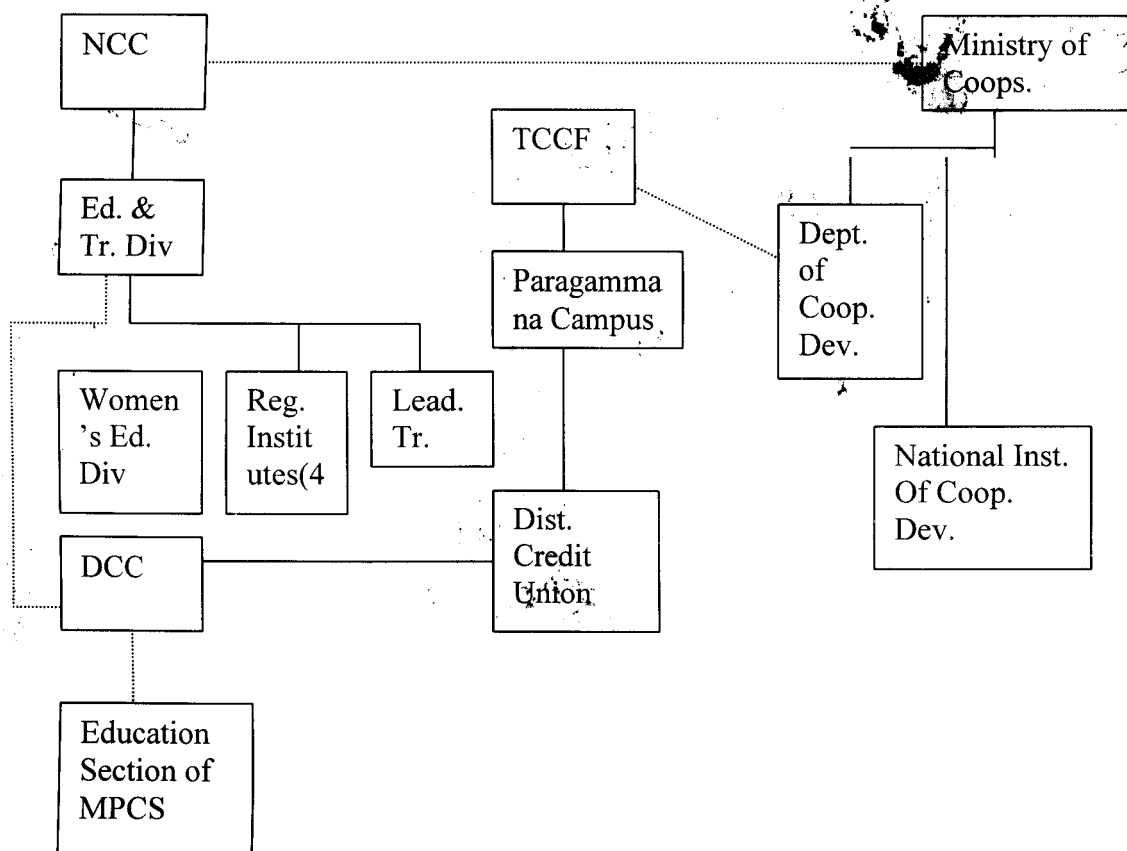
Current organisational arrangements for consumer cooperatives are found in the government sector as well as cooperative sector. Sri Lanka Institute of Cooperative Management (SLICM), which started as an ILO Project in 1973, was later made a parastatal institution through an Act of Parliament. This was the only management consultancy arrangement for cooperative sector which did a yeoman service to consumer cooperatives, by managing the activities under the consumer development fund made available by the government and supported by the Department of Cooperative Development in 1980s. This institution provided guidance in relation to conduct of economic feasibility studies on consumer projects, setting up of self service shops and supermarkets, operating a management information system (MIS) which analysed cooperative society business operations every month. In addition, the consultants provided consultancy services to selected clients occasionally. The SLICM has also published several technical publications on various aspects of retailing and wholesaling for the benefit of consumer cooperatives.

However, new government that came onto power in 2001 decided to close down the SLICM stating that it is an unnecessary government institution. As a result, it was closed during the early 2003. The consultants who were employed at the SLICM formed two institutions- one cooperative society dealing with management consultancy and another public limited liability company named as Management and Training Consultancy Cooperation (MATCCO). The cooperative society died at the birth itself, but MATCCO is still continuing with former activities with cooperatives. However, being a small organisation and fee levying enterprise, MATCCO would not be able to undertake broad activities that were initiated by the SLICM.

Motivation of the employees depends not only on the competitive salaries but also the recognition and reward systems. Employee of the month is somewhat stale as a strategy now, but the recognition on the special services provided by the employees through certificates and rewards on their achievements are not yet become common.

Current HRD structure of cooperative movement is illustrated as follows:

Current Structure of HRD in Cooperatives.



1. National Institute of Cooperative Development (NICD):

The predecessor to NICD, the School of Cooperation was the apex training institution carrying out certificate courses for cooperative employees as well as the officers of the Department. Residential courses were conducted for government officers and the other courses were conducted by the training centres affiliated to the National Cooperative Council (NCC). There were three examination courses conducted by these centres for cooperative employees:

1. Cooperative Employees Junior Level Certificate Course
2. Cooperative Employees Ordinary Level Certificate Course
3. Cooperative Employees Higher Level Certificate Course.

The School of Cooperation determined the syllabi and conducted examinations for these courses. Junior level course, which was a correspondence course was abandoned in the

1970s. The School has also transferred the responsibility of conducting the examination of the Ordinary Level to NCC in 1988. Therefore, the involvement of the NICD in conducting employees' foundation courses is marginal at present.

The School of Cooperation earlier was a section of the Department of Cooperative Development supervised by a Deputy Commissioner of Cooperative Development (DCCD) located in Colombo. There was a campaign from 1980s to make it independent and form an international training institute, which was accepted with some modification by the government in 2001. By an Act of Parliament, the National Institute of Cooperative Development was formed, which shed the international proposal. The NICD is a semi government body at present, and managed by a Management Committee appointed by the Minister in charge of cooperatives. There is an academic committee looking after academic side of the NICD. A Director General is looking after the overall management.

As for the cooperative employees, the NICD conducts two Diploma course- accountancy and management. The trainees are recruited for 9 months full time residential course, in which there is academic input and project work are combined. It was expected that the graduates from these courses would get better jobs in the cooperative sector, but the impact was not as expected. The MPCSSs, though agreed to send trainees, never took interest to provide better prospects to these graduates.

In addition the NICD conducts short term job related for management level staff of the cooperatives:

- Financial management
- Office management
- Sales management
- Project management
- Disciplinary procedure.

The courses conducted by the NICD are fee levying since it has become a self financed institution. There is no subsidy given to cooperative employees courses by the government, hence the sponsorship should come from the cooperatives or by the provincial or central departments of cooperative development. Many cooperatives are unable to bear the costs for the course, for want of sufficient working capital to carry on with the business, and the Cooperative Development Fund, which was the other source too is dwindling now. Therefore, future of these activities is uncertain.

NICD does not engage in members' education programmes. However, few ad hoc training activities for board members of the MPCSSs are carried out, basically confined to leadership development. There had also been instances where, some training programmes on legal aspects of cooperatives too have been conducted.

2. National Cooperative Council of Sri Lanka and Affiliated Training Centres:

The National Cooperative Council of Sri Lanka (NCC) since its inception has treated cooperative education and training as a priority in its responsibilities. Soon after the Department handed over the district level training centres to the then Federation, it started employees training courses. In addition, education programmes for cooperative members, committee members and school children too were organised.

Earlier, the Federation was having a decentralised structure with independent District Cooperative Unions and a national level Federation, in which they were the members and the owners. With the reorganisation in 1972, the District Unions were amalgamated into a National Cooperative Council, which was a centralised organisation. The District Committees lost their independence and became only advisory bodies to the NCC. Later, there was a campaign to restore the earlier position, and a new structure came to effect in 1989. At present, the NCC is managed by board of directors consisting of 13 members who are elected by the provinces and the apex level business federations. The President is elected by the general body. There are 27 members in the NCC.

The NCC has a history of promoting of different types of cooperatives and their federations. In addition, it had several projects dealing with cooperative education and training, starting with NCC/SCC/ICA Project for Training of Cooperative Teachers in Sri Lanka (TTP) followed by the ILO Project on Management Training as well as another project titled NCC/SCC/ICA Project for Women's Consumer Education in Sri Lanka. Which were initiated in 1978 and continued up to 1983.

The TTP and subsequently the ILO Project made a special contribution to staff training for consumer cooperatives formulated job related training for different categories of employees of consumer cooperatives:

1. Work Planning
2. Consumer management
3. Transport management
4. Supply management
5. Staff management
6. Financial management
7. Office management
8. Project Appraisal

These are based on MATCOM proto type material of the ILO-MATCOM Project.

In addition, there were on the job training packages made for retail shop managers and shop supervisors consisting of several modules.

The foreign funded projects helped to establish 3 regional level training institutes with residential and training facilities. The above courses are now being conducted by these Institutes managed by the NCC directly.

With the withdrawal of government support in 1989, the NCC has been faced with shortage of funding, as it has to depend on members' contributions and their own income through consultancy work, rentals and ad hoc funding that comes from the Peoples Bank Cooperative Development Fund. As a result, the number of staff has been reduced to 78 and the academic staff has become marginal in number. There are several constraints faced by the NCC:

- Shortage of capital for training and maintenance of training institutions
- Lack of specialised staff to conduct training activities
- Lack of updated technology in training

Conduct of leadership training programmes for board members of the MPCs has been a regular feature of Leadership Training Centre of the NCC, which is located in the hill country. These activities are normally of two days duration, and the contents include legal aspects of cooperatives, taxation and general management. Normally the lecturers are drawn from the NCC education staff and occasionally, the services of external facilitators too are obtained.

Introduction of the models of members' education programmes has been a prerogative of the NCC. The first to be introduced is the Study Circle system in the lines of Swedish model, which has been transferred through SCC, supported by projects such as TTP and Women's Consumer Education Project. School of Cooperation too has been pioneering in introducing this model from 1950s. Later it has been revived by the School in 1980s supported by the Department of Cooperative Development. General topics relating to the cooperative ideology, management of cooperatives, legal aspects and some consumer topics have been discussed with the support of learning materials produced.

Another model introduced in 1980s was the ICA-CEMAS Fed approach to member education. Although it has been introduced with the support of the ICA, it had a marginal effect for want of funds and facilitators properly trained on the model. Later, CMPP approach to member education was introduced by the NCC with the support of the ICA, which had some influence on the active participation of members in the management of cooperative projects.

3. Thrift and Credit Cooperative Federation (TCCF)

The TCCF has started its training activities in 1985 with the establishment of its Education Campus at Paragammana, Kegalle with residential facilities. It has promoted a college system known as Cooperative College, Business College, Insurance College, IY College, Banking College, and Women's College. The curriculum is more oriented towards jobs. The consumer training is related to the retailing concept known as 'Saneepa' through which producers sell their products to consumers directly through a forum set up by the Thrift and Credit Cooperative Societies.

With the expiry of the foreign funding, the Education Campus has also faced with the problems of carrying out its training activities due to shortage of funds and high turnover of specialised staff.

4. District Cooperative Councils:

With meagre resources the District Cooperative Councils (DCC) has, they are only able to conduct the formal Cooperative Employees Ordinary Level Course and some need based ad hoc seminars only. As the DCC is having only one Secretary and in few cases, one more education assistant, they are unable to contribute in an organised manner. They conduct sales training and for the staff of MPCSSs.

Technology application for HRD:

The strategies adopted for HRD in consumer cooperatives has not been systematic or logical in relation to career development. Although a model has been adopted in 1980s with the TTP and ILO inputs to have gradual development of employees starting from induction, foundation courses, job training, job specialisation and job enrichment, the syllabi and contents could not be completed before the projects ended. They still remain as activities unfinished.

Training approaches to modern enterprises have radically changed over the years starting from structured specialisation based on the division of labour to holistic and generalised approaches so that all staff would become team players irrespective of their specialisation. Learning organisation concept paved way to deep and symbiotic relationships among teams in various departments to think as one organisation striving for learning to survive in the changing market.

The job training has been identified as to be undertaken on two levels: on the job training and off the job training. While using different models of curriculum development for off the job training using systematic approach, on the training model was adopted basically from DACUM and CAP models from Canada. These models based on individual based training charts, have not been able to be completed. Specially, a retail shop managers training package was built on this basis. As for the off the job (institutional) training, ILO Training Package model has been used to a certain extent. Sometimes, packages developed by the ILO-MATCOM Project in the 1980s have been adopted with the assistance of the Project to suit conditions in Sri Lanka. In regard to the field education officers training programmes, CEMAS-FED approach based on the Criterion Reference Method has been used.

Mentoring, counselling and one to one training are some of the techniques yet to be developed for want of proper strategies, manuals and proto type materials. This is supposed to be taken up during on the job training approaches, but there had not been attempts to train supervisors or managers to undertake the role of trainers.

In contrast to the traditional training institutions in the cooperative sector, emerging supermarket chains are now developing their own in house training for the staff in retailing and related supermarket operations. From familiar local dresses to greet customers using local welcome are some of the added features to convey the identity of each supermarket chain. Such trainings are based on using interactive A/V techniques.

In regard to members' education programmes, the approach has been ad hoc based on the needs expressed by the committees of cooperatives as well as topics identified by the District Education Officers. There had been attempts to introduce Cooperative Member Participation Programme (CMPP) of the Swedish Cooperative Centre (SCC) which was popular in Africa and channelled through the ICA Regional Office for Asia and The Pacific, with limited success.

Use of Audio Visual (AV) aids was confined to traditional aids such as white board, flannel graph, flip charts and electronic equipment such as overhead projectors, slide projectors and sometimes video players. Computer based multi media is yet to be introduced with the exception of the NICD.

The approach for facilitation of learning is confined to trainer centred pedagogical approach and the session guides too have been prepared on that basis. Learner centred andragogical approach was introduced by the TTP with limited success as the training of trainers was difficult due to termination of foreign funded projects. Systematic development of trainers was attempted to be undertaken from the basics of principles and philosophy of learning based on the Humanist School of adult education, to be taken to the level of counselling and mentoring but abandoned half way in 1980s. Present day trainers are only using the material prepared during this period still.

TTP Project attempted to change the trainees' evaluation systems in the 1980s along with the introduction of revised cooperative employees training curriculum and the material, which has had an effect on the current examination system. With a high turnover of the trainers trained by the TTP on these lines, the training institutions are left with very few familiar with participatory approaches to learning and evaluation techniques.

The NCC/SCC/ICA Project on Training of Cooperative Teachers in Sri Lanka (popularly known as TTP) from 1978 to 1981 attempted to develop an internal training system with a structural change in the MPCSSs, has put out manuals and materials concerning the subject. It has also developed at least 3 models in the MPCSSs. The concept followed during the experiment is as follows: *"An internal training system in an organisation essentially represents the focus on objectives and the priorities of activities which are set by the management. It deals with the training requirements in bringing about maximum productivity from the resources by using them effectively and economically. Human side in the organisation is the main factor which contributes major portion to this. Development of human resources cannot be achieved by launching a one sided effort from the management point of view, but it should have the committed involvement by the trainee. The organisation should be flexible enough to accommodate the involvement of trainees in deciding training policy as well as learning experiences. The training function*

is an integral part of an organisation which influences functioning of other components.”
(Herath 1982)

The attempt had results in terms of better economic participation by the members and also the change of appearance and services of the branch shops, but did not take roots in other areas due to inability to widen the exercise by the NCC through District Councils.

(xv) Problems faced by Consumer Cooperatives:

a) Capital Formation:

Current capitalisation of the consumer cooperatives consists of following:

- a) Owned capital – shares, accrued profits and reserves
- b) Borrowed capital – loans from various sources and types, overdrafts and deposits

a) Owned capital:

Share capital forms the basic capital of consumer cooperatives coming from the pre reorganisation days. Prior to reorganisation in 1971, normal value of a share has been fixed as Rs. 50 in the MPCSSs and with the reorganisation it was lowered to Rs. 1 in order to have more public participation in the MPCSSs. Majority of the population was forced to become members of the MPCSSs in order to receive government rationed commodities distributed through MPCSSs. With the entrance of the open economic policies in 1977, most of these members became inactive. Later, the share value of the MPCSSs was changed to Rs. 100.00 through amendment to cooperative legislation. However, the former members continued to be members. There were no limits for purchasing shares by the members, but one member – one vote principle has strictly been observed. Another restriction was that no member could buy more than 20% of the share capital of a cooperative.

However, due to the losses incurred in the consumer operations, accumulated profits used as the working capital of the MPCSSs has been marginal. On the other hand, the Registrar of Cooperatives has allowed consumer sections of the MPCSSs to borrow from the surpluses of the rural banking sections of the same MPCSS for consumer operations which had to be paid back over a period of time agreed. The normal experience has been that the repayment has been erratic.

The table below provides the picture as in 2002 in regard to assets and liabilities of the MPCSSs:

Assets and Liabilities of MPCSS- 2002

Assets		Rs. Million							
Description	N & E	NCP	Uva	South.	West.	Centr.	NWP	Sabara.	Total
(1) Fixed assets									
Land, buildings	1653	454	748	2485	1786	1419	2850	1085	12480
Machinery & equipment	163	118	34	763	176	20	530	342	2146
Transport	775	273	213	903	1050	714	1000	601	6520
Tools	670	274	150	706	966	679	850	532	4827
(2) Investments									
Institutional shares	255	14	01	169	157	109	-	14	719
Debentures	-	-	-	-	-	6	-	-	6
Long term deposits	5364	1389	1621	15341	20263	3933	10120	9258	67289
Long term bonds	313	-	-	-	-	-	-	-	313
Others	584	278	212	114	3145	4882	13330	4927	27472
(3) current assets									
Stocks	4926	813	424	1772	2719	944	2130	1493	15221
Member debtors	3452	976	5059	18093	24631	7974	14570	7741	82496
Other debtors	5566	2643	815	2477	7824	3844	1170	1999	26338
Short term bills	122	-	-	-	645	17	-	-	784
Cash in hand & bank	2288	140	426	1351	8845	964	640	697	15351
Other current assets	2588	4012	4692	14927	13327	3917	120	420	44003
Other assets	7441	4508	370	-	976	931	8930	1626	24782
Deficit	1634	650	723	525	3067	1484	-	1308	9391
Total	37794	16542	15488	59626	89577	31838	56240	32049	340313

Owners fund and liabilities

Description	N&E	NCP	Uva	South.	West.	Centr.	NWP	Sabara.	Total
(1) capital & reserves									
Members shares	1769	277	118	651	620	554	670	231	4890
Reserves & balances	8237	1935	1052	5185	12102	3079	8120	2453	42163
(2) long term liabilities									
Long term govt. loans	1463	-	2584	-	50	5240	-	773	5394
Long term bank loans	2256	3257	39	4193	1654	633	1950	-	13982
Other long term liabilities	1125	669	57	1388	524	1455	2170	397	7785
Long term deposits									
(3) Medium term liabilities									
Govt. loans	300	1063	91	-	87	-	-	-	1541
Govt. bank loans	666	512	50	-	957	39	-	-	2224
Other medium term liabilities	1410	-	50	-	197	296	-	10360	12313
Members deposits	450	651	786	-	35656	2451	-	6961	46955
(4) Current liabilities									
Govt. Loans	1458	-	01	357	-	50	200	78	2144
Govt. bank loans	601	-	650	2010	-	856	-	2811	6928
Personal bank loans	42	-	-	-	-	365	550	-	957
Members deposits	5467	3424	6650	19533	-	11680	10700	-	57454
Trading debtors	3002	420	-	-	1959	1142	-	-	6523
Bank overdrafts (consumer)	1296	968	836	1650	2585	1611	2000	1205	12151
Other bank overdrafts	835	-	86	-	150	518	-	-	1589
Recurrent expenditure	454	326	85	-	1535	506	-	-	2906
Other current liabilities	4680	2719	2285	24659	6603	1217	15450	520	58133
(5) Other liabilities	2283	1582	68	-	24896	4862	14330	6260	54281
Surplus	-	-	-	-	-	-	-	-	-
Total	37794	16542	15488	59626	89577	31838	56240	32049	340313

As revealed above the share capital of the MPCSSs in 2002 was Rs. 4890 million. The figure of Rs. 42163 million shown as reserves and balances does not belong to consumer

operations, but to rural banking operations. Therefore, when compared to turnover of the consumer activities of the MPCSSs, the turnover in 2002 was Rs. 26975.2 million, which shows a severe inadequacy of the share capital for the consumer activities. During pre reorganisation period, value of share fixed at Rs. 50 was sufficient to provide services to the village, but at present, value of Rs. 100 is insufficient. The average value of a share at present stands at Rs. 73.23 per member. One week's assortment for a retail shop would need substantial cost as the assortment should be comprehensive enough to make all essentials available for the members, as they have inculcated a habit of one stop shop. Therefore, the Presidential Commission recommended that a share value to be increased to Rs.1000 to be paid by instalments.

The MPCSSs accrued a deficit of Rs. 9391 million during 2002.

b) Borrowed capital

Borrowed capital of the MPCSSs consists of the following:

- Government loans
- Bank loans
- Bank overdrafts
- Loans from the Rural Banking section and the Unions
- Members consumer deposits

Government loans were taken from the Cooperative Development Fund, Treasury Consumer Development Fund and funds supplied by JICA.

Taken together, borrowed capital is substantially higher than the owned capital, due to which the financial cost has gone up considerably. In the year 2000, the MPCSSs have paid Rs. 35 million as interest against a debt liability of Rs. 342.9 million. The ratio of overdrafts to loans was 86.5%. As a ratio, financial cost of MPCSSs varied from 0.02% to 3.32%.

It is difficult to assess the status of the working capital, as the balance sheets of the MPCSSs which include rural banking operations cannot apportion the assets and liabilities of the consumer section as it is not divided. The Registrar has not allowed utilising the funds from the rural banking section to any other sections. Even if it shown that there is a working capital available for operations it is an unrealistic picture.

As a matter of principle, owned capital is given emphasis in cooperative societies. The ratio one has to maintain between the owned capital and borrowed capital is such that the owned capital should exceed the borrowed capital.

Out of the types of borrowed capital, most acceptable borrowing is the members' consumer deposits, as it generates a group of active stake holders of the cooperative and also it could be used for generating member directed merchandising policy.

Some leaders and managers have been arguing that they should also follow the practice of private traders who have very heavily borrowed capital for their business and their own money is marginal. This has been indirectly followed by many MPCs borrowing from the banks and the government as well as their own rural banking system, which has shown negative results in terms of business. Firstly, the MPCs had to cover the financial cost of borrowings by increasing the prices, and secondly, the debt servicing has become difficult when the assortment is restricted due to erosion of working capital which resulted in decreasing gross profits. *Isao Takamura*, one time managing director of the Kobe Coop said, "In order to create a stable development of a business in today's economic society, cooperatives need to work to increase and utilise members' capital share investments."

The problem in Sri Lanka is the rigid observance of the guidance given by the Registrar on the value of the share through his model by law which is followed to the letter at the time of registration. The owners of the cooperative soul determine the value considering the economic viability of the cooperative and the capital needed for carrying out the business.

b) Governance System

From the foregoing discussion on the subject, it appears that there are many obstacles faced by the MPCs to realise an ideal, autonomous, independent and democratic governance system:

- a) Legislative restrictions on the symbiotic relationships among branch committees and the central management, making them subordinated;
- b) Politicisation of the management which propagates partisan decisions and nepotism in recruitment and control;
- c) Clash of interest between the directors and the cooperative organisation which results in working against the cooperative principles and practices;
- d) Inability to professionalize the management and bring the standards at par with other enterprises;
- e) Incompetence of the leadership and lack of interest in observing cooperative way of governance;
- f) Inability to adopt new technology in MIS and take decisions accordingly with a view to ensure sustainability of operations;
- g) Apathy on the part of the members to participate in the cooperative meetings and also the business.
- h) Inadequate stakeholder participation in specialised committees in business decision making.

Efficient governance system that suits the on going open market system is a pre condition for success of cooperative ventures. So long as the MPCs depend on the government programmes such as Samurdhi, the current cooperative leadership would be able to hang on and operate with the uncontested competition for Samurdhi business. On the other hand, as the Registrar's powers have been restricted through the legislation, he would not

be able to supervise effectively as he could not supersede the BOD who is corrupt. Therefore, the reforms should be multi faceted incorporating not only the legislation, but also the management systems, capitalisation and modernisation of operations.

Due to the faulty legal arrangements, the BOD is not accountable to membership. On the other hand in the case of private sector establishment, the Registrar of Companies has imposed heavy penalties on the BOD who do not adhere to basic principles and rules of association. The internal management could be such that it would adhere to the basic guidelines by the Registrar with flexibility on daily business operations.

c) Management System

The MPCSS follow a hierarchical administrative system having about three levels of management – policy level, top management level, and supervisory level – rigidly observed. Accountability and the responsibilities are vested with the individuals more than the groups, which mean that the organisation is operating on the division of labour in the traditional sense. In contrast, private sector organisations have now adopted team approach to management with flexible line and staff relationships. Network organisation would be the key for a change, where each department would function as a network team who would relate to relevant other department teams horizontally, without going through the hierarchical channels of communication.

Another aspect to management is the management of human resources, which is governed by the CEC rules and circulars. In some provinces such as Uva, there had been instances where the CEC officials demanded to sit on the interview boards of cooperatives for recruiting staff. On the other hand the approval of such appointments is given by the CEC. In such an arrangement, it will not be possible to adopt its own HR management approaches by the MPCSS management. The alternative would be to do away with the CEC system and revert to the common labour legislation and conventions.

There is no system to induct and orient the laymen who get elected as directors, who, as described in the table on the professions of the directors, are only having basic school education and are ignorant over the business practices. Management culture has to be created through careful and systematic mentoring of directors and the managers.

Inadequate capital has created many difficulties for the consumer cooperatives which have to be sorted out by the stakeholders of the cooperatives. At present, the average share capital for a MPCSS is Rs. 1.6 million for all the activities. Unfortunately, there is no division of working capital into various businesses including the consumer business; hence it is difficult to assess the deficit for consumer section. However, as there is only marginal increase of share capital of the branches since the reorganisation, it could be stated that there is a gross inadequacy of capital for consumer operations. Therefore, accumulation of capital is another issue which has to be settled urgently if the MPCSS are to be revived. Cost of borrowed capital makes cooperative less competitive.

Another factor is the heavy cost of operations. Many cooperatives are not cost conscious and also do not cost their operations. Prices are also arbitrarily fixed without proper costing. Samurdhi programme under which the MPCs receive major turnover is found to be a loss making venture as found by the Presidential Commission.

Administrative cost as a percentage to gross profit was more than 50% by an average. Ideally, it should have been below 25%. Gross profits to sales range from 2.37% to 7.46% which is very low. The net profit varied from 0.56% to 6.6% in profit making cooperatives. It should have been more than 12% if the cooperative were to be cost effective. Staff cost to sales was from 1.64% to 6.75% which appears to be unjustifiable.

d) Support Services

Support services of the government have been of several folds:

- Recognition of cooperatives as legal persons after registration
- Provision of audit services
- Provision of loans and concessions
- Working as the interface between the policy makers and the cooperatives.

As the cooperative movement has been introduced with the initiative of the government, the main obstacle for the creation of an independent and member centred cooperative system is the government itself. From the time of Laidlaw Commission in the 1960s, there had been attempts and pronouncements to make the cooperative movement autonomous, but the process has been very slow. Even in the case of legislation, the government still has not brought new legislation that suits the current open market system in the country. The cooperatives are not operating in a level playing field.

Auditing has been a useful service conducted, but the delay of auditing is unpardonable. It is the major function of the Registrar today, but the progress is somewhat unsatisfactory. The achievement of the target on audit for 2002 is 85% as an overall result, but in some provinces the achievement is lower than 60%.

Registration of cooperatives too has had some problems in the recent past, as there have been quasi cooperatives registered in some provinces such as NWP and Uva. Even at the Central Registrar's level such incidents have been there.

Another problem is the absence of a management consultancy arrangement for consumer cooperatives since the suspension of the Sri Lanka Institute of Cooperative Management in 2002. Currently, many MPCs are seeking advice on the modernisation of their retail shops, for which they are compelled to pay prohibitive prices for the services from private sector companies.

f) Market Competition

As the consumer cooperatives were not mooted as a natural development based on the consumers felt needs or rather due to ignorance which was found by the government for

essential commodities distribution, the services were always confined to provision of rationed goods or essential food commodities mainly. There had been attempts to make them member oriented by the consumer unions, but it did not take root firmly prior to or after the reorganisation of MPCSSs. When the ration books were withdrawn, Jana Saviya took it over and later to be named as Samurdhi programme, under which a food basket was made available to families below poverty line. In addition, drought relief, flood relief etc. were channelled through the MPCSSs. Hence, the consumer sections of the MPCSSs always had a distribution dependence on the government schemes. This situation has retarded the growth of a member oriented consumer cooperative movement. In the process, the MPCSSs lost the competitiveness in the open market.

(g) Strategic Alliances

As described above, the problem of strategic alliance has been due to the ignorance on the part of many MPCSSs who have been depending on the government programmes for their existence and also due to the lack of know how. The alliance can take place not only with external organisations, but also with local organisations. Specially, the agricultural producing organisations and marketing organisations could be possible partners of such an arrangement. 'Sanchoku' system adopted in Japan which brought producers and consumer cooperatives together in partnership has not only increased the competitiveness of consumer cooperatives, but also contributed towards food safety. The consumer cooperatives have extended this concept not only to local producers, but also the producers in the Philippines and Indonesia. There is a great potential of such a system locally. Lack of sufficient capital for such operations especially with overseas organisations has been a main obstacle for such exercises. As per the current investment law, foreign capital is allowed in the organisations including cooperatives.

An answer to trans-national and multi-national consumer marketing companies is the alliances among trans-border cooperatives, but this has not materialised in Asia still. Scandinavia and Europe have some models, but they too are not strong enough to meet the challenges by international retail giants. A danger of partnering with private sector companies is the eventual take overs or mergers.

(h) Human Resource Development

Organisational design itself is not conducive for the introduction of learning organisation which is ultimate in HRD in business organisations as current organisational structure is hierarchical and rigid in the approaches to human resources. There is no systematic HR planning even in the MPCSSs, which are having the largest number of employees. In the absence of these pre conditions, there is no systematic HRD system having linkage to career development and personal development of employees.

With the decline of foreign funded members' development and leadership development models, the member education programmes are confined to ad hoc arrangements with the District Cooperative Councils. The activities are related to legal and other administrative

matters, leaving out the roles they have to play in the context of a competitive environment.

4. NATIONAL POLICY AND LEGISLATION ON RETAIL INDUSTRY AND CONSUMER AFFAIRS.

The concerns of the government to protect consumer goes back to colonial times, when the Civil Defence Commissioners Department was set up in 1939. Later, it was named as the Food Commissioners Department which undertook the importation of essential food items such as flour, sugar and rice. With the enactment of the Control of Prices Act in 1950, Price Control Department was set up to ensure that consumers would get a fair price of essential commodities with government regulating the prices.

With the open market economic policies introduced in 1977, the government envisaged the problems that comes with the open market and wanted to create a level playing field for all market players and also prevent restrictive business practices and also consequent monopolies or oligopolies created by business cartels. Therefore, Consumer Protection Act was passed by the parliament in 1979, while keeping the Department of Internal trade in charge of enforcing the legislation. The objectives of the Act were to regulate the internal trade; protect the consumer; and establish fair trade practices. The Commissioner of Internal Trade was expected to execute the provisions of the Act. This Act was amended in 1980, 1992 and in 1995. Due to the defects in the provisions, the Commissioner was unable to act effectively, hence the provisions were made by the Amendment Act (No. 34) in 1992, giving him more penal authority.

One of the unique features of 1980 Amendment was the establishment of Consumer Protection Fund. The source of financing the Fund was from the fines imposed by the courts for offences under the Act, where it was to have 50% of the proceeds of the sale of any article forfeited under the Act, grants or donations to the Fund and any sum voted by the parliament for consumer education. The Commissioner of Internal Trade was expected to make payment from the Fund for the promotion, assistance and encouragement of consumer organisations and for consumer education and information dissemination.

With the growing issues in consumer protection and also the drawbacks in the administrative system in enforcing the law, Fair Trading Commission Act was passed in the parliament in 1987. Although the Commission has been appointed and functioning, there was no improvement in giving relief to consumers. Hardly any prosecution took place and there was criticism against the apathy of the Commission to take action against the unfair acts of private companies who took over state monopolies during the transition.

As a result, Consumer Affairs Authority Act has been passed by the parliament in 2003. The main objectives of the Act were:

- a. Promotion of effective competition and the protection of consumers;
- b. Regulation of internal trade;
- c. Establishment of a Consumer Affairs Council.

The objectives of the Authority are:

- (a) To protect consumers against the marketing of goods or provision of services which are hazardous to life and property of consumers;
- (b) To protect consumers against unfair trade practices and guarantee that consumers interest shall be given due consideration;
- (c) To ensure that wherever possible consumers have adequate access to goods and services at competitive prices; and
- (d) To seek redress against unfair trade practices, restrictive trade practices or any other forms of exploitation of customers by traders.

The functions of the Authority are:

- (a) control or eliminate-
 - (i) restrictive trade agreements among enterprises;
 - (ii) arrangements amongst enterprises with regard to prices;
 - (iii) abuse of a dominant position with regard to domestic trade or economic development within the market or in a substantial part of the market or;
 - (iv) any restraint of competition adversely affecting domestic or international trade or economic development;
- (b) investigate or inquire into anti-competitive practices and abuse of a dominant position;
- (c) maintain and promote effective competition between persons supplying goods and services;
- (d) promote and protect the rights and interests of consumers, purchasers and other users of goods and services in respect of price, availability of quality of such goods and services and the variety supplied;
- (e) to keep consumers informed about the quality, quantity, potency, purity, standards and price of goods and services made available for purchase;
- (f) carry out investigations and inquiries in relation to any matter specified in this Act;
- (g) promote competitive prices in markets where competition is less than effective;
- (h) undertake studies, publish reports and provide information to the public in relating to market conditions and consumer affairs;
- (i) undertake public sector and private sector efficiency studies;
- (j) promote consumer education with regard to good health, safety and security of consumers;
- (k) promote the exchange of information relating to market conditions and consumer affairs with other institutions;
- (l) promote, assist and encourage the establishment of consumer organisations;
- (m) charge such fees in respect of any services rendered by the Authority;
- (n) appoint any such committee or committees as may be necessary to facilitate the discharge of the functions of the Authority; and
- (o) do all such other acts such as may be necessary for attainment of the objects of the Authority and for the effective discharge of the functions of such Authority.

Unlike the previous legislation pertaining to price controls, the proposed Consumer Protection Authority is not expected to undertake price regulation, but has authority to issue general directions to the traders and manufacturers in respect of labelling, price marking, packeting, and sale or manufacture of any goods.

As per the legislation, An Authority has already been set up which handled more than 800 complaints up to May 2004. In many cases, consumers have got relief. One consumer has been redressed with Rs. 400000 as compensation.

However, there are criticisms against the Consumer Affairs Authority Act mainly in the area of regulating mergers and monopolies. During recent times, in keeping with the open market economy, gas industry which was the monopoly of the government has been sold to Shell Company and Prima Company has the monopoly of supplying wheat flour to the country. The attempts to encourage other competitors in these areas have failed due to the agreements with these two companies. With the escalation of prices in these commodities, the consumers could not get relief due to difficulties in introducing anti monopoly legislation after repeal of Fair Trading Commission Act No. 1 of 1987. Provisions for regulating mergers and monopolies have been excluded from the Consumer Affairs Authority Act. (CAA) Establishment of the CAA is politicized as some campaigners argue. They go to the extent that CAA is more a business protection act than consumer protection legislation.

Another difficulty faced by the Consumer Affairs Authority up under the CAAA is the lack of human and other resources for carrying out investigations within the stipulated time (30 days) and the inability decentralise its authority to provinces in spite of the fact that government has decentralised many of its functions. The critics argue that the privilege of making use of CAA is bound to be held by the elite in the cities.

Consumer Associations have been encouraged from the 1979 legislation and several consumer societies have been established for the consumers. However, many a times they have been dominated by local politicians especially at the national federation level. The model followed is somewhat similar to Malaysia where there is a strong national level organisation in the name of FOMCA. There is a Consumer Protection Society of Sri Lanka and some other NGOs such as Consumers' Organisation, Law and Society Trust (Sri Lanka) and Centre for Policy Alternatives dealing with consumer protection issues, but they have not been able to make an impact due to the inability to penetrate into the masses as a mass movement. They are basically engaged in the legal and regulatory issues rather than going into the business practices and their effects on the consumers. Lack of awareness among the consumers is a major obstacle for an enlightened consumer movement. Ignorance on the laws and the business practices of the trading houses has been alarmingly felt during the emergence of illegal practices which were mainly revealed by the government authorities during mid 2004.

Another move to protect the consumer from hazardous low quality products was the establishment of the Sri Lanka Standards Institution (SLSI) in 1965. Standards certification is required for number of products which are essentials for the consumer and

the balance are optional. The task is becoming a complex one with the globalisation has entered into the country with much acceleration, where many types of goods and services are offered by off shore companies as well as joint ventures and local companies. Especially in the case of local industrial products, the task is challenging due to the protection of local industry expected from the government. On one hand, the goods that have been produced according to international standards are freely imported and sold at competitive prices and on the other hand, local products are required to compete with them on quality and price both. Therefore, it is a challenge to protect the local industry while maintaining international standards, which require mass volumes of production and technology to keep the costs down.

As a result of globalisation process, Sri Lanka has also been affected by the controversy on genetically modified (GM) food products that are coming from the developed countries. Ministry of Health has taken initiatives to enact a legislation to impose ban on the GM foods, but the government has not been able to implement it due to pressure from the business cartels and trans-national companies. Legislation was to be effective from 1 September 2001, but was suspended indefinitely. Even the WTO has queried whether there is sufficient evidence to prove that GM foods are unsafe for the humans. The government of Sri Lanka did not dare to take a stand on the precautionary principle No. 15 of the Rio Declaration to justify its decision. At least the government could have taken steps to impose mandatory labelling of GM products. Many supermarkets in the developed countries have withdrawn GM products from their shelves, once the controversy on GM products emerged.

5. COOPERATIVE LEGISLATION AND OTHER LEGISLATIONS AFFECTING THE GROWTH AND DEVELOPMENT OF CONSUMER COOPERATIVES.

Legal structure governing the cooperative movement of Sri Lanka is a common legislation in comparison to other countries such as Japan and South Korea where we see sectoral legislation on different types such as agricultural cooperatives and consumer cooperatives have been enacted.

Current cooperative legislation affecting the consumer cooperatives has been formulated in 1972 through the Cooperative Societies Act No. 5, which has been the base for subsequent amendments and also the formulation of Cooperative Statutes by the Provincial Councils after devolution of the subject of Cooperation in 1987. The original Act was based on the economic policies of the socialist government that came into power in 1970. The Act facilitated the economic development and welfare activities of the then government through a government controlled large primary cooperative system known as Multi Purpose Cooperative Societies (MPCS).

Subsequent to the recommendations of the Presidential Commission on Cooperative Movement of Sri Lanka was presented to the Her Excellency the President, the parliament was dissolved and new government has been elected in December 2002. New Minister of Cooperatives under the direction of the new Prime Minister appointed a committee consisting of highest officials of the Ministry and top level cooperative leaders to study the recommendation of the Presidential Commission and prepare proposals and strategies for cooperative development in the country. After studying the recommendations the committee came out with a draft consisting of following:

1. **Recognition of Cooperative Principles:** National cooperative policy should be based on the basic principles accepted by the ICA and paving the way for an independent and self operative movement.
2. **Autonomy:** The State should recognise the cooperative movement as an independent movement of people and should provide legal framework and the administrative structure necessary to improve and develop its principles and values as an independent organisation.
3. **Elections:** Regulations should be formulated to enable members to elect major stakeholder members on majority of votes. Three members elected should have technical knowledge on fiscal matters, management and commercial activities.
4. **Ethics:** A code of ethics should be formulated to take legal action against offences committed by the Board of Directors (BOD) of a society or its employees, and the members of the society concerned should have the right to institute such legal action against such offenders.

5. **Shares and Dividends:** The members of a society should have the right to determine the value of a share of a cooperative society or a union on the basis of the intended business.
6. **Membership:** A person should go through the stages of applicant membership, associate membership and full membership. A member thus becomes the full member, should have held a position of an associate member for a period of one year.
7. **Facing the challenges of the open economy:** Although the Ministry and the Department of Cooperative Development have implemented certain programmes, results are not adequate to meet the challenges of the open economy, hence the cooperative movement needs a facelift structurally and attitude wise and at the same time removing of all existing impediments.
8. **Employee Disputes:** There should be only one tribunal to settle the disputes of cooperative employees and issues should be settled expeditiously.
9. **Removing obstacles faced in marketing and purchasing activities:** Obstructions experienced locally and internationally in purchasing goods to cooperatives and marketing activities should be identified and removed, while a wholesale cooperative is set up within the cooperative movement itself.
10. **Decisions regarding human resources:** Legislation should be made to enable the cooperatives to recruit employees and determine the salaries according to a proper scheme of recruitment.
11. **Cooperative human resource development:** The programmes to develop skills of cooperative employees are not adequate resulting consumer based attitudes are weak. Therefore, it is necessary to implement programmes to create awareness among members and employees and improve their knowledge and skills.
12. **State support to the Cooperative Movement:** considering the contribution made by cooperatives for economic and social welfare of the country, the government should allocate funds for cooperative education in addition to the provision of a portion of taxes based on Cooperative Fund for training.
13. **Registration and maintenance of Societies:** Registration, monitoring and supervision of cooperatives as well as enforcement of legislation should be undertaken by the Commissioner of Cooperative Development.
14. **Model by laws:** the Department of Cooperative should formulate model by laws for cooperative of various categories.
15. **Maintaining separate accounts in respect of each unit of the cooperative societies:** Action should be taken to draft by laws requiring cooperatives to have separate accounts for each economic activity.
16. **Auditing:** Auditing committees should be appointed by the general body of the cooperatives to oversee the auditing function. Provisions relating to companies on auditing should also be made applicable to cooperatives too.

Since these recommendations, the Ministry of Cooperatives has not yet taken action to implement the recommendations. As a result, contradictory provincial council cooperative legislation continues in form of Statutes. 17th Amendment of the Sri Lanka Constitution has allocated a role for the central government to lay down the national policy on cooperatives, which is mandatory for the provincial councils to follow. In the event of any breach of the policy, such provisions in the provincial councils are not valid.

However, there had been several attempts to draft a national policy on cooperatives by different governments since 1987 which have not been successful. The most recent attempt is the national workshop organised by the National Cooperative Council of Sri Lanka with the concurrence of the Ministry of Cooperatives. The workshop held in February 2004 has identified the content of such a national policy as following:

01. Acceptance of the cooperative identity;
02. Establishment of supporting institutions for cooperatives and make contributions;
03. Acceptance of cooperatives as special type of enterprise system;
04. Allow cooperatives to participate in the national development without losing the identity;
05. Create a legal and institutional structure that protect cooperative identity;
06. Making available all concessions and privileges that are provided to other sectors in the process of national development;
07. Utilising cooperatives in the development activities of alleviation of poverty, reduction on unemployment, creating better environment for work, rehabilitation of destitutes etc. that fall within the priorities without affecting the identity of cooperatives;
08. Provide opportunities for the cooperative sector in the process of privatisation of state enterprises;
09. Provide opportunities for cooperatives to invest on partnerships with overseas companies and strategic alliances with them;
10. Provide equal opportunities for the cooperative sector for internal and external trade on equal terms to state sector as well as private sector;
11. Provide opportunities to cooperatives for developing domestic agriculture and industries as well as marketing of produce;
12. Sponsor human resource development activities that are required for cooperative development;
13. Introduce cooperative subject in the schools, vocational studies and university education as appropriate to the relevant fields;
14. Promote and provide facilities for introducing financial and insurance systems for the development of cooperatives;
15. Contribute to formulate and implement new economic and social enterprises that are essential for the community;
16. Promote cooperative programmes aiming at women and youth;
17. Promote and facilitate introduction of new technology for developing management skills in cooperatives;
18. Take action to provide facilities at least to treat cooperative equally and to protect their values and identity;

19. Accept cooperatives as a vehicle for environmental protection and sustainable development.

So far no further action has been taken in spite of the appointment of a working group on the subject. New government has to consider taking follow up action on the subject.

6. CONCLUSIONS AND RECOMMENDATIONS

(a) General.

Introduction of open market economy and subsequent integration into globalisation process has provided many opportunities for cooperative consumer business in Sri Lanka. Liberalised imports, deregulation of state enterprises, lifting price controls, government withdrawal from cooperative administration, liberalised trade agreements with other countries have open doors to enter into large scale retailing.

However, due to its own organisational problems and the lack of awareness on the global trends, consumer cooperatives in Sri Lanka have not been able to fully utilise the opportunities provided. Still there are few consumer cooperatives growing using the market to their advantage and have shown path to others.

Due to the emergence of competition among retailers and the growing awareness of the need to look for alternative retailers and also the tendency on the part of the consumers to keep the cooperatives as a best alternative, consumer cooperatives have maintained the dominance among the low income groups as their retailer. Therefore, it is justifiable to say that consumer cooperatives have an important role to play in the community and also have potential to be the consumer friendly retailer of the community.

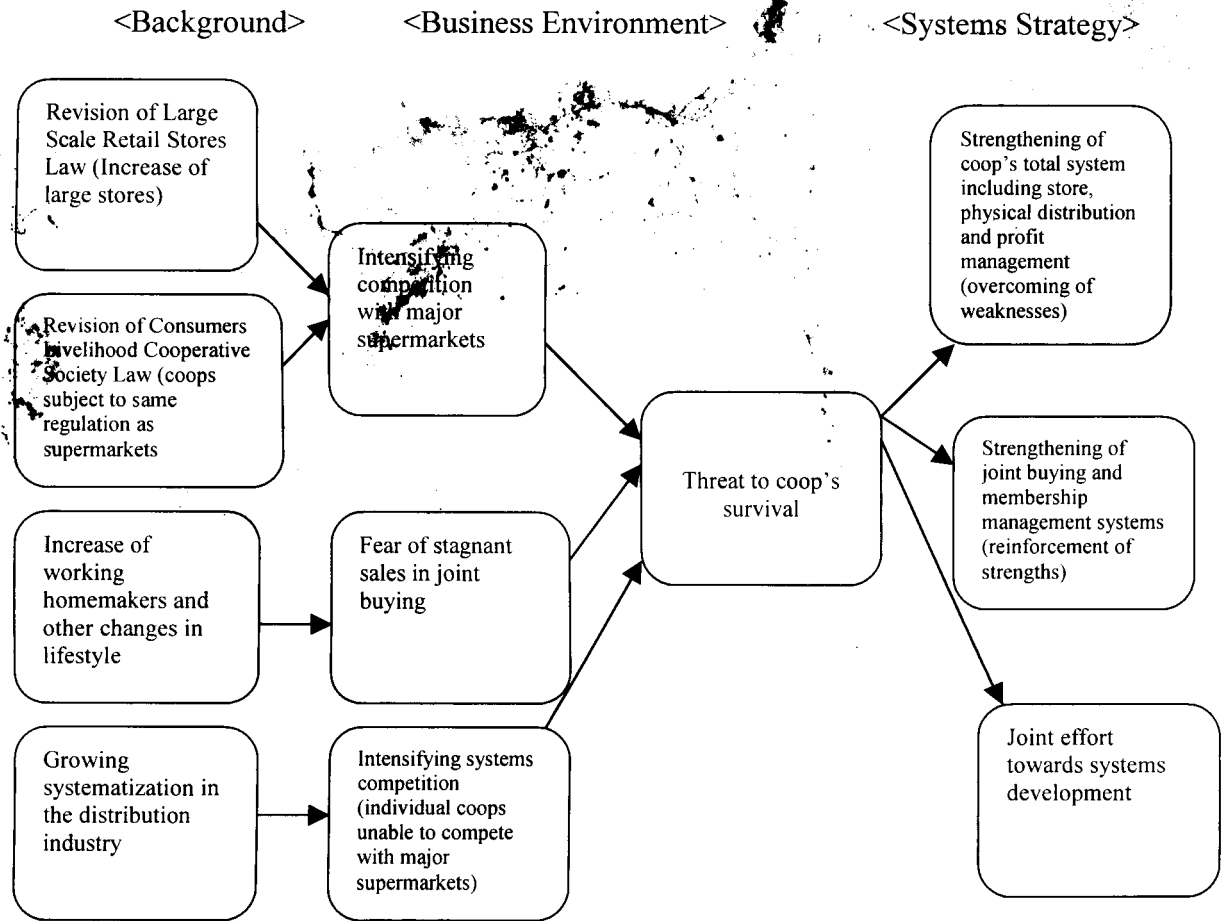
However, there many issues that has to be resolved to make cooperatives more strong in the modern context as discussed already. These need to be addressed, if consumer cooperatives are to survive and grow in the future. Some of the solutions are summarised here with certain models that could be adopted for pursuing the change in the organisational structure and the business practices. In this context, it is also necessary to be mindful to note the recommendations of the Presidential commission on Cooperatives. Hon. Prime Minister of Sri Lanka declared on the International Cooperative Day celebrations in July 2004 that the government would take necessary action to pursue the recommendations made by the Commission.

The Presidential Commission on the Cooperative Movement in Sri Lanka has given several recommendations on the improvement of various aspects of consumer cooperatives. These recommendations are given as an appendix to this report. (*See Appendix 1*)

(b) Organisational dynamics

Como Japan, a consultancy support organisation to consumer cooperatives in Japan, has provided a clear example of a strategic consumer cooperative system in order to help the consumer cooperatives to survive in the turbulent consumer market. A model created would provide a realistic process that could be adopted by consumer cooperatives in Sri Lanka too:

Environment of Consumer Cooperatives and their Systems Strategy.



Source: *Nikki Computer*, July 1, 1991, P.66

Extracted in *Seikyo – A Comprehensive Analysis of Consumer Cooperative in Japan* Hidekazu Nomura 1993 – OTSUKI Shoten Publishers.

Although there is no special legislation governing large scale retailers or supermarkets, general rules as found in the Consumer Affairs Authority Act and related legislation could provide further conditions in form of rules or procedures by the authorities to regulate the retail industry in Sri Lanka. As found in the above model, there is a necessity to change the cooperative legislation in order to create a level playing field for consumer cooperatives to compete in the open market. Business environment as found in the above is common to Sri Lanka. In the systems strategy, changing the total system is essential for consumer cooperatives. Emphasis on the joint buying operations could be adapted to joint buying by the retail branches of the MPCs and also by the MPCs themselves, replacing the traditional federated system involving the COOPFED.

(c) Management of Retail Business

Capitalisation

In order to deal with the inadequate working capital for carrying out sustainable consumer business, it is necessary to raise owned capital rather than depending on the borrowed capital. There should be an awareness campaign among the members to inform them about the low share capital which has been mainly generated before the reorganisation and the consequent decline in the competition due to costly borrowed capital.

Borrowing should also be confined to the internal borrowings through deposits and debentures. Members' capital always has advantages even if the interest is paid. Another way of raising capital is the issuing of consumer deposit certificates with easy denominations such as Rs. 300, 500, 1000 etc. even if a better interest rate is offered, it would be possible to raise enough profitability by achieving more stock turns. This has been tried in an experiment undertaken in Uva Province, and found it is feasible.

Another arrangement would be to take an enhanced single deposit which would generate sufficient interest component so as to provide consumer goods free of charge to the consumers every month instead of interest against the deposit. This has been tried in Maharashtra State in India and found working satisfactorily.

Structure

The MPCSSs rigidly maintain a hierarchical organisation with various levels strictly observed. It is a centralised organisation which administers a chain of retail outlets from the centre. After the reorganisation, the branch committees lost their controlling power over their village shop, which has compelled them to confine their job to recommend loans for the members and send delegates to the general body of the MPCSS.

Therefore, it is necessary to take a close look at the internal management systems and introduce network organisational arrangement so that the Departments of the MPCSSs would work as task groups who would relate to each other in terms of target achievements and commitment to the organisational goals. In this process, the retail branches would work as profit centres with certain amount of independence in decision making in the areas which affect the business in its area of operation. Assortment should fit into the customers in the area and even the procurement has to be streamlined to allow local purchasing to the extent that the task would reduce the cost rather than buying centrally. Some of the items commonly needed by all branches could go for central purchasing in order to reduce the purchasing cost and also for the purpose of using a common brand name.

Joint buying

This process could be termed as even joint buying by the retail branches, as the central sales department would function as the purchasing agent for others. In a decentralised capital base with separate accounting and banking arrangements, the branch membership would decide the merchandise through their branch management committees, who would place the orders with the central buying section. Cost is shared among the branches. Joint buying by the branches through the centre with the support of information from the market information is more cost effective and would have better margins.

Replacement of the existing COOPFED by some other procuring agency is inevitable unless it is re engineered to serve the members taking substantial section of the merchandise requirements. It has inherited a heavy accumulated loss, which is difficult to get rid of unless more capital is pumped in and have large volume of trade with diligent management. If the member cooperatives are to operate a joint buying system which is cost effective, it has to adopt somewhat similar arrangement like in Japanese consumer cooperatives, by reducing the staff and changing the buying procedures. It is also unclear about the directions of the proposed cooperative consumer company, as to whether it would undertake supplies to cooperatives while operating supermarkets or convenient stores. Franchising is another strategy the COOPFED could adopt in order to gain more turnover from the supplies.

When it comes to members joint buying activities, in the absence of such a system except in the case of welfare organisations, there is a possibility to start them in the areas not served by the retail shops of the MPCSSs. Sometimes these areas are served through mobile shops operated from lorries carrying a mixed assortment with a staff and selling facilities. Group of members would certainly get benefited from bulk buying at reduced cost.

Purchasing

Central purchasing should be based on efficient market information on the products and prices as well as supply sources. This could become a simple exercise that could be handled by the central purchasing department who will use computers to have a data base on the daily or weekly price levels of each commodity and the sources of supplies. Information could be gathered through the radio, TV, news papers, telephone and also other market intelligence services. The information could be stored for usage at the time of taking decision on the price and the sources of supply by the purchasing committee. Such a system has already been proposed in Uva province where the writer conducted an experiment on the subject.

Another element in purchasing commodities is to have an assortment based on the actual needs of each area coming under the retail shops. This has to be prepared in consultation with the actual consumer representatives, if not the housewives. It is also necessary to make it weekly requirement basis, in order to ensure at least 4 stock turns a month, which is possible in the Sri Lankan context. Purchases should be strictly on that basis, so that the capital which is low should bring more returns.

MBO and Management systems

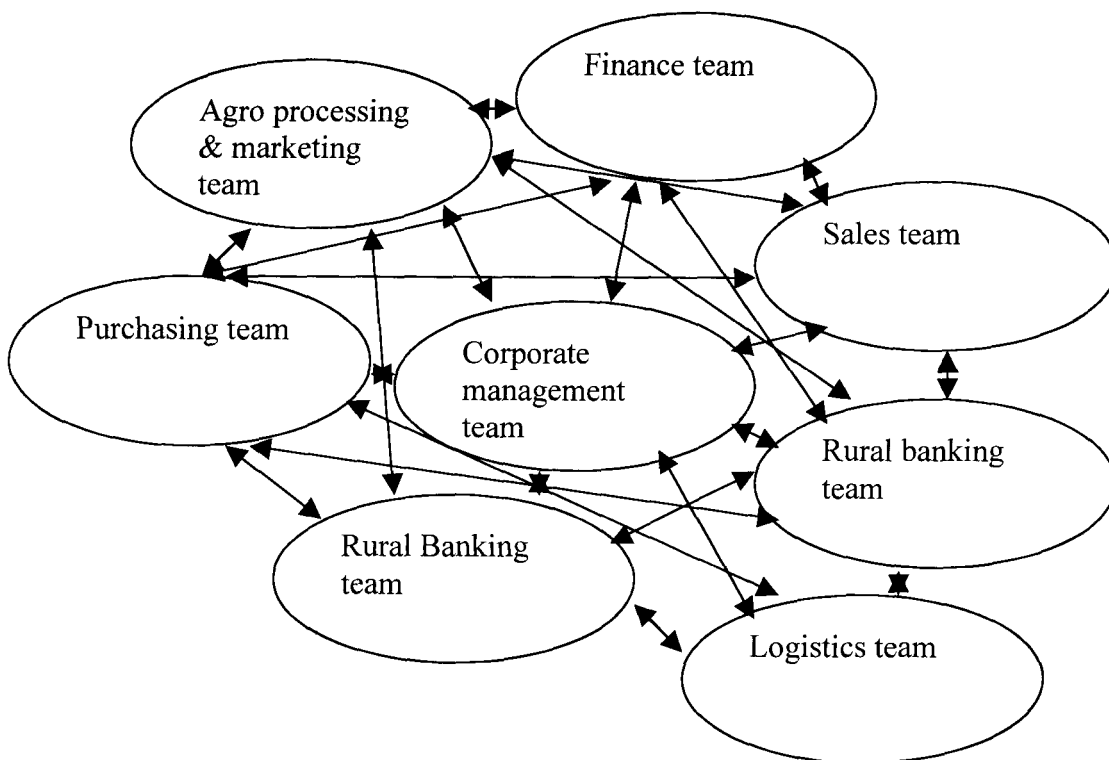
As for the management systems, the emphasis is on the procedures and the means rather than the performance and the results. The MBO approach to management is non-existent. Due to the Registrars supervision over the adherence to rules and regulations, the management of the MPCs too are bent on checking action in conformity with the rules and regulations. Current legislation and subsidiary legislation pose problems for quick decision making. As an example acquisition or disposal of assets of an MPC requires approval of the general body and the Registrar.

Strategic planning on long term and short term basis should be undertaken to have better management of resources. Each business unit should be made profit centres so that loss making sections could be eliminated. Annual plans and budgets should be made on the basis of the strategic plans and in consultation with the stake holders.

In the area of organisational design, present hierarchical organisation should be replaced with a network organisation in which each department would function as a project and a component of the society network. In such a system, communication flow is horizontal and the network units would work as semi autonomous group having their own targets as profit centres, within which the authority is given for decision making.

An example could be illustrated as following:

Example of MPCs as a Network Organisation



Sales Promotion

At present, one cannot see an organised sales promotion campaign in consumer cooperatives other than occasional bargain sales during festival times. As the customers and members have gradually withdrawn from the cooperative retailers, it is necessary to have special promotional campaigns combined with rehabilitation of the shops for reviving business.

The private supermarkets use slogans such as 'cheap by few rupees' or 'on your way home' in their sign boards. However, cooperatives are known to be cheaper, hence they may have to use some other slogans for the purpose.

Special deals make customers attracted to the shop by having popular items at a cheaper rates or draws or such campaigns. Promotional merchandise makes customers curious about the shop.

Frequent shopper cards issued to regular buyers adding some benefits on a point system too would be a good start, although the payment of rebates on the purchases would be more attractive. For this purpose, the cooperative supermarkets may need to install computer based billing and cash register system with a customer data base.

Advertising in cooperatives has a different approach that should be observed: cooperatives would never encourage over consumption and provide choice for the purse of the member. Over consumption leads to extravagant expenditure which cannot be afforded by the customer. On the other hand, the cooperative should also educate the consumer rather than making them passive buyers. All advertisements are geared to provide correct information to consumers. Advertising budget too should be allocated taking into consideration that the cost has to be borne by the consumer.

Pricing

Pricing of commodities has been a problem in many MPCs though vital for the profitability. Costing the value of commodities is not undertaken properly due to the lack of technical competencies. Training systems too do not provide enough skills, and the calculation formats are not used. Therefore, the price determination is through approximation and competitors price considerations.

It is also necessary to avoid level pricing, in order to attract customers for the goods priced lower than the competitors, when it comes to popular and known priced goods. For this purpose, price surveys in the market are essential. It is also a known fact that the commodities that are having rapid turnover are priced cheaper than the ones take time.

Seasonal pricing is another strategy the cooperatives should follow in order to get better turnover during festivities.

(d) Efficiency norms for consumer operations.

Using efficiency norms in consumer operations is essential in order to keep them on track. Some business organisations have started using these ratios as annual targets instead of actual financial figures. When the standards are set in form of efficiency norms, it would be very easy to assess the progress of the operations. Monthly appraisals are undertaken on the business normally and these ratios would help the management to take decisions to achieve better performance. Some of such norms set in the context of cooperative retail operations in Sri Lanka are as follows. They would be the minimum efficiency expected in order to not incur losses in retail operations:

- Gross profit from retail sales : 8%
- Staff salaries as % of gross profit : 25%
- Debt: paid up capital ratio : 1:1
- Turnover from the current assets (annual) : 12
- Liquidity ratio (current assets: current liabilities) : 1:1
- Monthly sales per employee : Rs. 100000
- Monthly stock turnover : 4
- Net profit as a % of gross profit : 5%
- Net profit as a % of paid up share capital : 20%
- Trade creditors as a % of the stock : 60%
- Fixed deposits = reserves + 50% of the member deposits
- Daily sales per sq. foot : Rs. 10
- Annual productivity of the stocks (profit margin x stock turnover): 120
- Leakage as a % of turnover : 0.5%
- Ratio between wholesale business & retail sales : 25 : 75
- Daily Sales per member : Rs. 100
- Minimum dividend to be declared
At the end of the year : 5%
- Minimum patronage rebate to be declared annually : 2% from the purchases

These norms are basically applicable to business coming from the branch shops of the MPCSSs. It is necessary to arrive at slightly different norms to supermarkets.

Management of Retail Shops.

Under a legal reform exercise as described above, the branch committees should be converted to autonomous units under a flat organisation without central controls, and the centre should be serving as a service unit rather than a control unit. The branch general bodies and the management committees are authorised to take all decisions on the merchandising, pricing, leakages and wastage, staff control, sources of procurement etc. the branch membership would decide on the assortment the shop should carry. The branch shop should have its own bank account preferably in the cooperative rural bank near by, which should be operated by the management committee.

The retail shops should have its accounts maintained separately and monthly profit and loss accounts should be prepared. Monthly general meetings are compulsory, where the members would discuss about the business achievement during the month and the finances. In regard to the branch profits, the general body could decide on the ratios for distribution of the profits.

In such a system, the accounting staff of the present MPCs which is the highest in numbers could provide book keeping services to the branches, which will bring a creditability to the branch accounts that are prepared at a cheaper cost levied by the centre. The centre can also undertake procuring commodities required by the branch shops to the specifications given and deliver them to branches in packeted form. The centre normally buys bulk from the manufacturers such as rice, sugar, and grains etc. this arrangement could also bring the quality and also common branding of the commodities.

Management Information System.

Current information flow to and fro is based purely on retailing and wholesaling, between the branches and the centre of the MPCs using a specific form in which all information is summarised on monthly basis (F28). This is a controlling tool as the ratios are calculated and summarised, which could be matched with any efficiency norms. In that respect, it is a management tool which can be strongly used for assessing the progress of business and take decisions for the future. Only external information is confined to sales per consumer or member.

This MIS does not have information on the competitors or the market share the MPCs enjoys as a competitor in the retail industry. It also does not have individual members' purchasing information in some cooperatives. The MPCs which distribute rebates on participation through transactions with the cooperative maintain manually, a ledger having personal accounts for members' information. This should be applicable not only for rebates to members, but also to introduce sales strategies as frequent buyers' rewards. This also would lead to have closer contacts with the key buyers from the cooperatives through luncheon meetings or breakfast meetings for responses on the assortment and various aspects on retail store management.

(e) Human Resource Development

Staff Development

In order to infuse new thinking on the professionalisation of management in consumer cooperatives there are two alternatives. Firstly, professional managers could be recruited from the private sector, if competitive remuneration with authority could be offered. This proposition is doubtful with the negative image of cooperatives in the job market today and also the inability on the part of the MPCs to pay higher salaries with perks. Second alternative is to change the current HRD system in order to prepare young managers available in the MPCs to undertake business leadership in the future. The recommendation that are made here are on that basis.

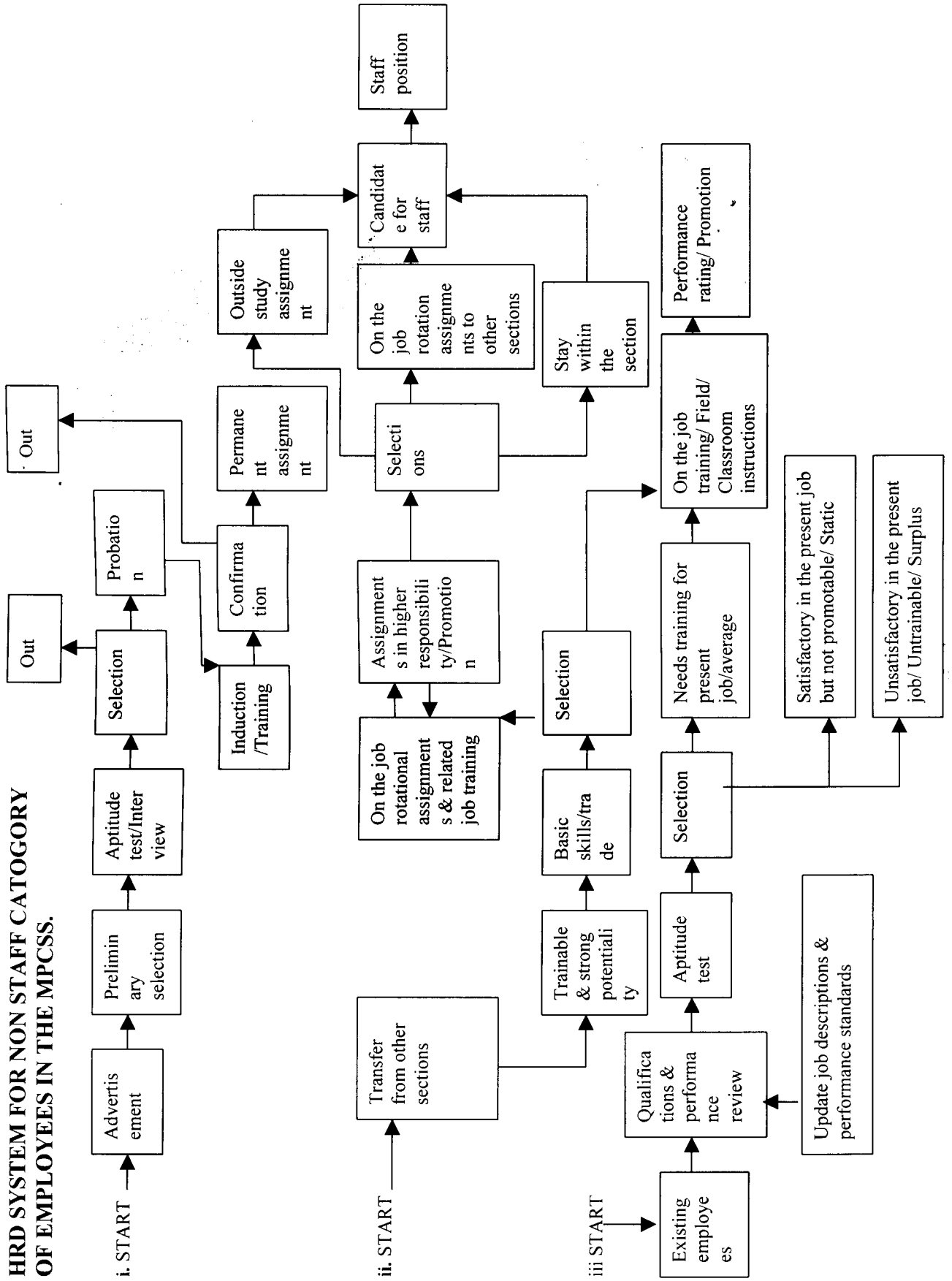
The current arrangements for development of staff through a systematic approach is defective as it does not relate to the career path of the consumer cooperatives and also has adopted a conventional approach to HRD in spite of attempts made to change it. Basic foundation courses are examination oriented and also the promotions depend on the certificates and mere seniority rather than the performance.

Therefore, the induction programmes for the new employees should be prepared with proper guidelines. Basic theoretical training should be combined with the on the job training undertaken by mentors. One to one guidance by mentors is a must for new employees to build the confidence which will have better retention of the employees. After guidance, the employees should be allowed to perform tasks independently with constant reporting to the mentor.

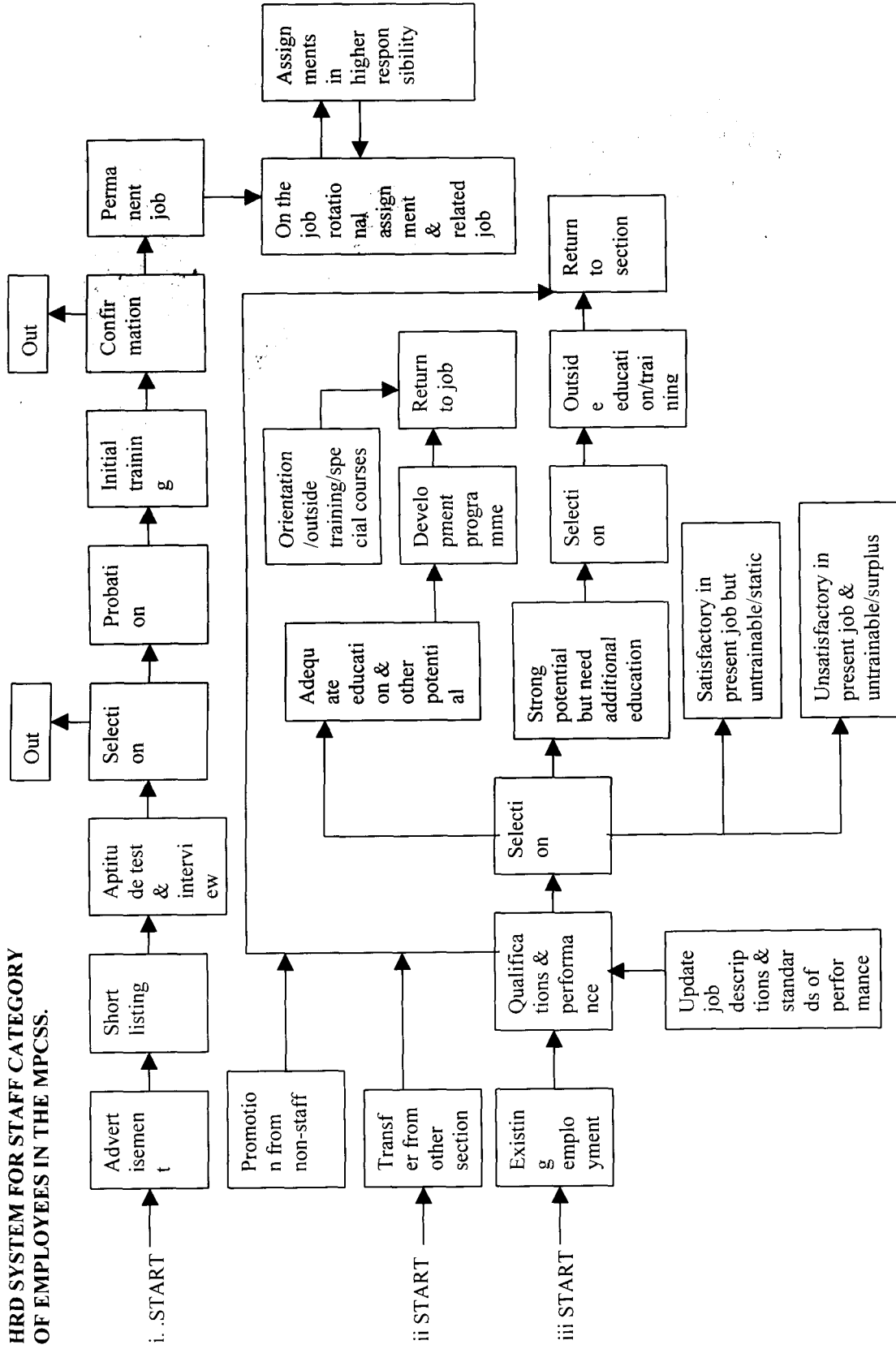
Job rotation at the initial stage of employment would make the employee acquire overall knowledge of the functions on the same level of jobs which are related to his work place.

Following two models have been prepared for staff and non staff employees taking into consideration the current recruitment levels, and possible personal development with linkages to career path of the employees:

HRD SYSTEM FOR NON STAFF CATEGORY OF EMPLOYEES IN THE MPCSS.



HRD SYSTEM FOR STAFF CATEGORY OF EMPLOYEES IN THE MPCSS.



(f) Support Services by the Government

The role of government in the development of consumer cooperatives should confine itself to create a conducive environment for them to function independently and efficiently. For this purpose, the primary action that has to be taken is to create a new legislation without present restrictions on the business decision making and allowing corporate governance effectively to be implemented by the members.

In regard to the legislation governing the employees, it is also necessary to terminate the present system of Cooperative Employees Commission, which has restrained taking decisions on the employees that help better managing business activities.

When it comes to by laws of the MPCSSs, more decentralisation of power to the branch membership and the committees and for them to allow functioning as a net work organisation rather than a hierarchical organisation with central administration should be introduced.

Government could continue to undertake the auditing of cooperatives if it could afford the cost or by charging a nominal fee for the purpose. Alternatively, the larger MPCSSs could opt to hire chartered accountants for auditing which has to be incorporated into the legislation. Arbitration could continue to be a service which is provided by the government as it involves interpretation of cooperative principles and practices. Industrial Disputes legislation applied for the private sector by the government will be difficult to be followed without look into cooperative aspects of the organisation and the relationships among the stake holders.

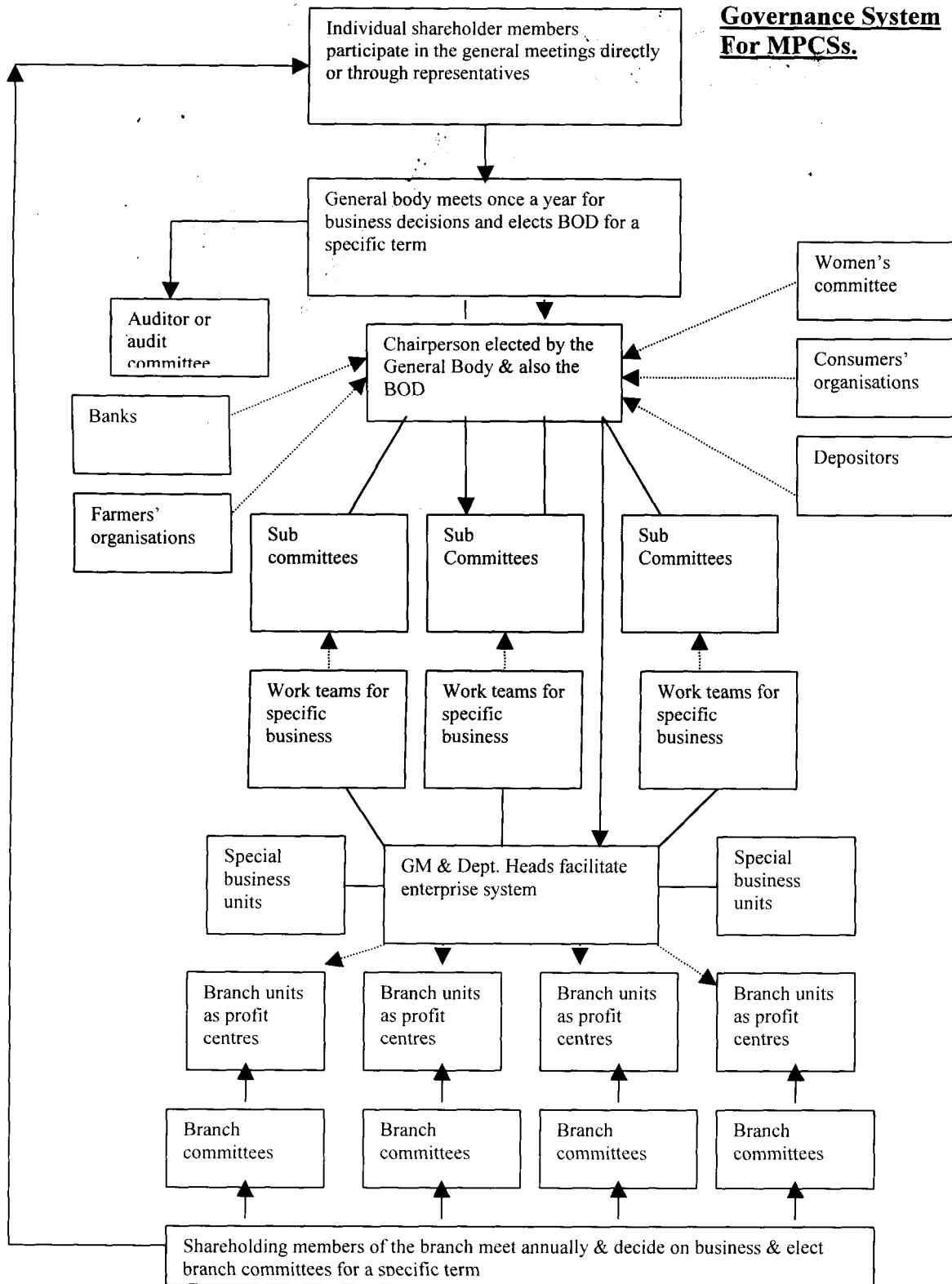
The government once had Sri Lanka Institute of Cooperative Management (SLICM) which provided consultancy services to consumer cooperatives in various aspects of supermarket operations and retailing. It has now been liquidated on the contrary to the recommendations by the Presidential Commission which made recommendations for strengthening it. SLICM could function as a self financing institution by charging for its services, which was the arrangement. At present, the consumer cooperatives would have to hire private consultancy companies, which they cannot afford in terms of prices and the demands for logistics. Therefore, it is necessary either to revive the SLICM or set up another mechanism by the national federations (COOPFED or MARKFED) to undertake such services.

(g) Corporate Governance System

In order to attain a democratic and principled governance system, it is necessary to revise the by laws of cooperatives as to introduce proper representation of actual stakeholders. In such a statute, the branches should have an autonomous status and the entire cooperative would work as a network of branches which function as independent business units. The relationships should be on the basis of the needs of the branches whose representatives participate in business decision making.

Specialised committee system should be expanded to involve stakeholders who are outside the BOD or the general body such as housewives organisations, depositors etc. they would protect the interests of the active members who draw services from the cooperative society. Such a system could be illustrated as follows:

Governance System For MPCs.



Another aspect is to introduce legal provisions for most active members to get elect as committee members and board members. In order to do this, the candidates nominated for elections should be the ones who have drawn services to a certain value of business and/or having more shares, deposits or other form of financial contributions. In any case the principle would be one member one vote only. In this manner, even the politicisation could also be eliminated.

Clash of interest by the board members vis-a- vis the cooperative society is another aspect that leads to corruption and nepotism in cooperatives. If the transparency and accountability of the decisions are observed and also wider participation in decision making is ensured, this problem could be minimised.

As seen above, the communication flow and the related management information system (MIS) are vital for sustaining an efficient governing system. Computer based technology combined with telecommunication system is the mechanism that is used for the purpose. The cooperatives have to adapt to the emerging changes in technology.

Working Group appointed by the British Cooperative Union on the corporate governance of retail cooperative societies in 1995 gave main reasons for a need for good governance:

- Improving the quality of direction and management in pursuit of improved business performance;
- Achieving the highest standards in management's accountability to the board;
- Promoting openness and transparency in relations between directors and members; and
- Re-invigorating membership recruitment and involvement.

Setting ethical standards in business operations is another aspect of achieving an identity and goodwill for cooperatives in the open market. This has been a key factor in successes in the consumer cooperatives in many countries such as Japan, Italy and United Kingdom. Such ethics are found in the Cooperative Identity Statement of the ICA itself.

In order to preserve the tradition of good governance, the BOD should have a caring for its stakeholder's interest in the cooperative society. They should also set directions for enterprise, provide guidelines for managers to function, monitor the progress of the cooperatives and ensure efficient fund management.

It is also evident that it is necessary to bring amendments to the present legislation and by laws to create pre conditions for good governance. This situation is not only applicable to cooperatives, but also the private sector organisations. A committee appointed by the Institute of Chartered Accountant of Sri Lanka on the subject has found that it is necessary to bring amendments to Securities and Exchange Commission Act and the Companies Act if good governance practices are to be introduced to private sector. This report recommends a broad based governance system for the companies, which is implemented through committee system in which broader segment of stake holders

participate in decision making. Same is applicable to cooperative as described above. It also recommends a submission of a compliance report by the BOD.

7. ACTION PLAN TO REVITALISE CONSUMER COOPERATIVES IN SRI LANKA.

Project Title: Revitalisation of Consumer Cooperative Movement in Sri Lanka.

Project Goal: A Competitive consumer cooperative network which has adopted modern retailing strategies to serve the members and other consumers in supplying their consumer needs in a sustainable and ethical manner.

Project Purpose: The purpose of the Project is to respond to the need to serve as an alternative sustainable system which educates the customers while serving their consumer needs to eliminate over consumption to realise sustainable consumption in order to adopt healthy life styles.

Project Scope: The geographical scope of the Project is the island of Sri Lanka.

Project Component 1: Structure of the Consumer Cooperatives Improved.

Outputs and Activities:

Output	Activities
(i) Economically viable & flat organisational structure introduced	a) Match the current structure with other retailing companies b) Calculate the costs of maintaining the current structure and the proposed structure c) Introduce the revised organisational structure to stakeholders d) Re engineer the present organisation to adopt new organisational structure with the systems. e) Replace traditional counter sales shops with either self services convenient store system or supermarket system
(ii) Networking and strategic alliances with other cooperatives & private companies fixed.	a) Review the functioning of the present branches of the MPCSSs in terms of current developments in the socio economic conditions in the area of operation b) Re-demarcate the areas of operation and shop locations of the branches if necessary. c) Adopt the new by law that provides autonomy for the branches and shops d) design & adopt new accounting and management systems for the branches e) Identify the assortment that needs buying from outside other than the members products

	<p>f) organise joint buying with the other branches through the central office of the MPCCS</p> <p>g) Get the MPCCS to work out strategic alliances with the producer cooperatives on the basis of forward contract system</p> <p>h) Get the MPCCS to enter into contract with the private suppliers for other commodities</p>
(iii) Improved corporate governance system adopted.	<p>a) Revise the current main cooperative legislation to accommodate more democracy in the functioning of cooperatives</p> <p>b) Revise the current by law to accommodate control by the members who have more stakes in terms of shares, deposits, transactions by changing the qualifications in the representative system and elections to committee members and BOD</p> <p>d) Establish specialised committees such as purchasing committee by incorporating the stakeholders into the set up</p> <p>e) Establish consultation with the frequent buyers and important customers for improvements in the system.</p>

Project Component 2: Development of Consumer Business Management.

Outputs and Activities:

Outputs	Activities
(i) Owned & borrowed capital brought to accepted level	<p>a) Calculate the working capital need to provide the assortment that is demanded by the shops</p> <p>b) Increase the value of the share and the number of shares that should be procured by members for voting</p> <p>c) Recruit new members on the new system</p> <p>d) issue consumer deposit certificate to members who want to join</p> <p>d) Take deposits for procuring goods free of charge using the interest to be paid</p> <p>e) Negotiate with the suppliers to pay after sales</p>
(ii) Strategic Plans formulated & implemented	<p>a) Conduct SWOT analysis with the Logical Framework Analysis (LFA)</p> <p>b) Organise workshops with the actual stakeholders to go through the strategic planning process</p> <p>c) Prepare short term and long term plans for the cooperative society</p> <p>d) Prepare budgets and implementation and monitoring mechanisms</p> <p>e) Implement the strategic plans with progress control</p>

	events.
(iii) Merchandising policies improved	<ul style="list-style-type: none"> a) Prepare Assortment based on the members needs in respect of each shop b) Introduce branding wherever possible c) Introduce processing and packaging wherever necessary d) Undertake product development wherever feasible e) Introduce Pricing mechanisms that would bring more turnover & profitability
(iv) Purchasing system at the lowest prices organised	<ul style="list-style-type: none"> a) Organise market intelligence systems b) Establish automated market information system c) Enter into agreements with the suppliers and manufacturers d) Enter into forward contracts with the farmers or agricultural cooperatives for agricultural produce e) Prepare Purchasing time schedules and logistics and ensure that they are followed f) Monitor the progress through committees
(v) Sales promotion activities organised	<ul style="list-style-type: none"> a) Decide on the appropriate sales strategy considering the market segment served b) Prepare & implement a socially responsible advertising campaign on the retail service c) Adopt and popularise key slogans among customers that represent the character of the cooperative d) Arrange improved seasonal bargain sales e) Sponsor major educational, social & cultural events in the area f) Organise consumer awareness programmes on the new products and harmful products such as the ones containing toxic substances and adulterated g) Publish in house bulletin educating the consumers on home budgeting and balance life styles h) Participate in the consumers events organised by consumers associations and improve the assortment accordingly
(vi) Efficiency norms introduced	<ul style="list-style-type: none"> a) Prepare an appropriate document listing the efficiency norms covering all aspects of the business operations of the cooperative b) Test the norms with the actual business operations of the cooperative society c) adopt the norms and educate the relevant persons involved in observing the norms d) Analyse monthly operations in terms of efficiency norms and prepare reports for the BOD e) Take remedial actions when there is a negative result.

(vii) Improved Management Information System Introduced	<ul style="list-style-type: none"> a) Study the current management information system (F28 and related forms) and modify it to suit the current information needs for decision making b) Test the new system with the branches and the other business units c) Educate the relevant persons on the preparation of reports accordingly d) Establish a committee for monitoring of information flow e) Implement the MIS at the management & BOD level for decision making
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Project Component 3: Support Services.

Output and Activities

Output	Activities
(i) National Policy on Cooperatives established	<ul style="list-style-type: none"> a) Create an awareness of the need to have a national policy as per the devolution powers among policy makers and the stakeholders of cooperatives b) Establish national and local level working groups c) Organise workshops on the national policy at the local level and the national level d) Prepare draft national policy e) Lobby with the policy makers to adopt the policy f) Proclaim the national policy at the parliament level g) Adjust cooperative legislation at the national & provincial level according to the Policy declared
(ii) Revise legislation in relation to consumer protection	<ul style="list-style-type: none"> a) Organise a campaign among cooperatives and NGOs on the weaknesses in the present consumer protection and anti monopoly legislation b) Get the respective government ministries to get the technical expert to propose amendments/ formulate new legislation to meet the current requirements c) Get the legal draftsman to draft revised legislation d) Get the parliament to pass the legislation
(iii) Establish consultancy services for consumer cooperatives	<ul style="list-style-type: none"> a) Lobby with the government to either to revive the Sri Lanka Institute of Cooperative Management (SLICM) to become the consultancy agency or explore the feasibility of establishing new agency b) Organise consultation with the consumer cooperative organisation on the form of agency to be established c) Decide on the form of consultancy agency to be established d) Establish a consultancy agency e) Failing to set up an agency, survey on the other

	<p>private sector agencies which has potential to provide services</p> <p>f) Contract with private sector agencies for the services</p> <p>g) Conduct a survey of consultancy needs by the national organisation for consultancy services</p> <p>h) Get the consultancy agency to provide services</p>
(iv) Establish a human resource development system(HRD) for consumer cooperatives	<p>a) Establish a HRD group from the consumer cooperatives</p> <p>b) Undertake a survey of the HRD needs of members, employees, leaders and other stake holders of consumer cooperatives</p> <p>c) Formulate systematic HRD system internally covering all target groups and levels</p> <p>d) Establish a data bank for human resources</p> <p>e) Establish an information system to receive information on external training programmes</p>

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Appendix – 1

**EXTRACTS FROM THE RECOMMENDATIONS OF THE PRESIDENTIAL
COMMISSION ON THE COOPERATIVE MOVEMENT IN SRI LANKA
RELATING TO CONSUMER COOPERATIVES.**

01. Structure

- There should be two main types of cooperatives formed on a hierarchical basis: one consisting of Cooperative Societies, Unions and Federations carrying out businesses and enterprises; the other Cooperative Councils concerned with the ideological and organisational aspects of the movement as a whole.
- The purpose of forming Unions and Federations at one more levels above the primary level should be to provide services and handle functions that cannot be handled at the lower levels.
- Present Multi Purpose Cooperatives should be reorganised to give autonomy to Pradeshikas so that they become independent cooperatives of their own. Headquarters of the present MPCs then can function as the divisional level union of these primary MPCs. This however must be done with the consent of the parties concerned.
- It should be made compulsory for all the primary MPCs to become members of the MPCs Union formed at an appropriate level decided by the co-operators. Any Pradeshika not willing to abide by this condition should be made an autonomous primary MPCs.
- Pradeshikas that wish to become separate primaries of their own should raise at least 60% of the capital needed to run their enterprises from among the members of that Pradeshika itself.
- When the present business of the Pradeshika is taken over by the primary cooperative formed out of it, it should pay the Divisional Union that part of the value of business including the fixed capital after deducting the value of whatever shares and assets the members of the Pradeshika have held in the MPCs after the 1971 reorganisation.
- Arrangement should (also) be made to review the viability of the areas of operation of cooperatives periodically especially when they continue to operate at a loss for more than two at a stretch.

Capitalisation.

- As far as possible, cooperatives should attempt to raise capital for business through the sale of shares to members in order to maintain independence and autonomy in their operations.
- As a rough indicator the value of a share of a primary cooperative may be kept at around Rs. 1000.
- The unencumbered balances of the cooperative funds estimated to be in excess of Rs. 500 million, pooled together in the proposed Common Fund could be utilised to provide loan finance at concessionary terms to societies to commence viable projects.

- Short term financial management has to ensure that the cooperatives have adequate liquidity and solvency, that inventory is maintained at ideal level, and matches p to business sector standard requirements, that creditors and debtors ratios are satisfactory and yield optimum benefits to the business.
- The overdraft limit has to be contained to 30% to 40% of working capital needs of the cash-strapped cooperatives.
- As far as possible, financial resources of cooperatives should be augmented by collecting share capital and deposits from members, and also by generating surpluses from business units. If loans have to be raised, they should not exceed 40% of the total working capital of a cooperative.
- Arrangements should be made to tide over short term financial difficulties by means of proper stock control, recovery of dues, use of short term credit facilities extended by dealers and customers, and also by disposing of idle assets.
- Arrangement must be made to impose better financial discipline by operating separate bank account for different business units.

Corporate Governance System.

- The upper limit of membership of a primary cooperative may be kept at around 500 to 1000 members as in many rural areas it may be difficult to find buildings to accommodate more than this number when holding a general meeting. As for the lower limit the decision may have to be based on the pattern of income distribution in the chosen area of operation and the maximum number of shares any one member should be allowed to purchase.
- Members of a cooperative should organise themselves into groups of 5 to 10 members having similar needs and professional requirements. Each group should select its own leader to represent interests.
- There should be four categories of members: (a) Applicant Members (b) Associate Member (c) Full Member (d) Distinguished Member. Distinguished members should be chosen to lead groups and consequently get elected to the Committee of Management.
- One of the requirements of registering a cooperative should be that it should obtain the membership of the next higher level cooperative.
- The size of the Committee of Management may vary depending on the number of member groups from a minimum of 3 consisting of the leaders of the member groups.
- Committee members of Unions should be elected from among the Presidents of their member cooperatives.
- In addition to the Committee of Management of all cooperatives should have a Performance Monitoring and Evaluation Committee elected by the general body to supervise and evaluate the level and quality of management of the Committee or Board of Management.
- Salaries of all categories of employees should be increased on a structured basis taking the level of responsibility, qualifications, professional competence and perform as the criteria.

- Management system of cooperatives has to be reorganised to ensure composition and functioning of general body and the committee of management to conform to the requirements of managing enterprises.

Business Management.

- Multi purpose cooperatives should attract more customers and expand their business in the sale of consumer goods.
- Government should give an advance to cooperatives to purchase goods for sale under the Samurdhi scheme.
- The business of selling consumer goods must be carried out on an innovative and aggressive basis. They must offer for sale all types of goods that are in demand to suit the convenience and taste of customers. Goods must be of superior quality, and priced competitively. Service must be courteous and reliable. Shops and sales outlets must be modernised and made attractive to make shopping at them enjoyable, relaxing and socially pleasing.
- Purchasing system of cooperatives must be streamlined to avoid the corrupt practices associated with it.
- The cooperative officials and employees should be educated and trained to do business in a competitive market.
- Government must issue instructions to government departments to prevent them from obtaining fuel or other commodities and services on credit from cooperatives.
- Cooperatives should take action to set up supermarkets in selected towns to recapture the market they have begun to lose.
- Cooperatives should provide the passenger transport service to their members and the community in general on a much broader than at present.
- Management system in cooperatives should be reorganised to facilitate the planning process.
- The new management system should make provision for decentralised decision making and also effective coordination of the functions of the individual business units and their teams of employees.
- Performance monitoring, evaluation and progress control must be made a regular feature of management at both the central and the business unit levels at least on a monthly basis if not more frequently.
- Information management should receive the attention of cooperatives at all levels. In this regard the use of computer technology is strongly advocated. Information along with their analysis has to be provided by a unit handling this function to enable the management to make correct and timely decisions.

Human Resource Development

- HR planning should be undertaken strictly on the basis of a corporate strategic plan and the ad hoc approaches changing the cadre should be done away with.
- The authority the Registrar of Cooperative Societies has for fixing the cadre of cooperatives should be transferred to the management committees of cooperatives.

- Individual cooperatives should have their own internal training system as a part of the total system created on the basis of the needs of the stakeholders.
- Individual cooperatives and the movement as a whole should have a plan for human resources management as well as development.
- Human resources of a cooperative should include members, leaders and also the employees. Training for upgrading quality has to be organised in relation to the functions and performance expected of each of these categories.
- In addition to training, provision has to be made to ensure that those who are enrolled in the membership of cooperatives show commitment to the cause of cooperatives before they are allowed to exercise their full membership rights.
- Opportunity should be provided for the members to participate directly and more frequently in the general meetings of cooperatives
- Cooperative should identify their cadre and employee training requirements in relation to profit centres business units and the performance of assigned functions.

Support Services.

- Commitment of the state to recognition and promotion of cooperation must be stated in the Constitution of the country.
- Government must provide the legal framework for the cooperatives to operate by enacting the necessary legislation. The basis of such legal provisions should be to promote the formation and functioning of cooperatives in accordance with the principles of cooperation. Societies which do not conform to the principles of cooperation should not be registered as cooperatives. Similarly, the registration of those cooperatives which violate these principles after registration should be cancelled.
- Cooperatives should be given the same freedom enjoyed by private entrepreneurs to carry on their enterprises and businesses.
- Cooperatives should be given facilities, incentive, concessions, including exemption from taxation by taking into account their performance in accordance with cooperative principles. For this purpose, they should be graded annually by the Department of Cooperative Development.
- Government should help cooperatives to find marketing opportunities within government institutions as well as outside.
- Co-operators should be allowed to form their own bank if they so wish and the government should provide facilities necessary for the purpose.
- Government should provide facilities and incentives for cooperatives to form their own national and regional level wholesale supply organisations to cater to the needs of the cooperative movement. They should be given assistance and encouragement for engagement in import and export trade.
- There should be a Cooperative Commission appointed by Parliament to ensure independent and autonomous functioning of cooperatives.

Cooperative Legislation.

- the proposed new Constitution should have a section which states categorically the following:

- a) the State shall recognise the cooperative sector as a third sector that needs to be promoted and assisted to avert the problems resulting from the operation of the state and private sectors in the economy.
 - b) The State shall safeguard, preserve, and encourage the acquisition of cooperative property and confer upon cooperative such concessions, privileges, and facilities that contribute and are necessary to the building of a strong and vibrant cooperative movement in the country.
 - c) The State shall make the necessary provisions to give adequate representation to the cooperative sector in the country's legislature, executive and judiciary.
 - d) Obtaining membership in a cooperative and participation in the cooperative movement activity should be regarded as a fundamental right of citizens, and hence it should be stated so in the section on fundamental rights of citizens.
- The proposed new cooperative law should be designed to promote the development of the cooperative movement for achieving the following aims:
- a) establishment and operation of cooperatives as legally recognised independent associations formed by interested individuals on a voluntary basis;
 - b) enable the cooperatives to engage in business enterprises in a competitive market environment and organise themselves into a strong movement as independent entities pursuing their social and economic objectives;
 - c) establishment of supporting institutions and structures that are necessary for the development of the cooperative movement as indicated in the present report;
 - d) giving special protection to cooperative property, operations and activities;
 - e) Safeguarding the rights and interests of those involved in the activities of cooperatives especially in situations when cooperatives fail to perform their duties and functions laid down in the cooperative law.

Business alliances and Partnerships.

- The principle of Cooperation among Cooperatives in Sri Lanka has been interpreted in terms of vertical integration of cooperatives. This has to be re interpreted to incorporate new forms of alliances that are economically feasible. It is necessary to look into the possibility of having joint ventures across different types of cooperatives and also other forms of business alliances.
- Cooperative in Sri Lanka should actively participate in business alliances with other countries in the SAARC Region, thereby consolidating the strength of cooperatives regionally. They need to keep in contact with other regional forums in order to participate in the global economic alliances.
- Cooperatives should make use of AARC trade agreement to their advantage without waiting to follow private enterprises.

- Technical cooperation should be based on client centred partnership and focussed on achieving sustainability and self reliance at the time of termination of any project. In order to achieve this, partnership with stakeholders of such an exercise should be promoted.
- New forms of partnerships in the form of joint ventures and networking with developed cooperative movements should be promoted. These could be established on the basis of BOI type of conditions rather than those stipulated by donors.
- Trade information network is the major component of developing a coop trade activity among SAARC countries.
- Modern technology should be applied for cooperative trading activities. Much can be achieved through the internet based commercial operations.

Appendix - II

CASE OF KOLONNAWA MULTI-PURPOSE COOPERATIVE SOCIETY LTD.
(Regd. No. D/2432 – 24.01.1971)

01. Address: 224, Kolonnawa Road, Wellampitiya.

02. Financial Year: August 01 to July 31.

03. Brief History.

Kolonnawa Multipurpose cooperative society is a creation after the reorganisation of cooperative organisations which had an amalgamation of few smaller MPCs in the area. However, Kolonnawa MPCs was in existence from 24.02.1970 and the name was retained even after the amalgamation. On 24.01.1971, the amalgamated new society was registered and started its business operations. It has been a comparatively small cooperative society, where the adjoining Kotikawatte MPCs was larger. However, Kotikawatte MPCs got into difficulties during early 1980s and thus been liquidated. The area of operation was attached to Kolonnawa MPCs and the present Society has become larger.

Kolonnawa is an urban area adjoining Colombo Municipal Council and has many industries such as Petroleum refineries and garment factories. It was earlier know as workers town. The population in the area of operation is about 500000 mainly consisting of middle class and lower income families. Agricultural activities are marginal and main activities are centred around large a medium scale industries. Agriculture is around the submerging areas of Kelani River.

Kolonnawa MPCs faced difficulties of capitalisation and business turnover in the late 1970s and was on the verge of declaring liquidation. The management was inefficient and corrupt. There have been several investigations during this period and many BOD were superseded based on the inquiries under the law prevailing at that time. As the area was a political hot bed of fighting leftist and lightest parties, the boards of management were also entangled in the conflicts and were acting on the whims and fancies of the politicians.

Subsequent to the amendments to the cooperative law in 1983 and later additions, the formal political influence waned, but continued to a certain extent until now in an indirect manner.

04. Membership.

Membership at present is consisting of lower middle class and below the poverty line families. The growth has been very marginal.

Year:	98/99	99/2000	2000/2001	2001/02
Membership:	31458	32585	33365	33870

There have not been any member recruitment campaigns during the last 5 years. The increase is basically due to the credit services offered by the MPCs, for which the membership is compulsory.

05. Number of Branches:

There has not been any increase of branches, as the area has been demarcated on the basis of local government constituencies, and also there was no need to change as the branches perform only a consultative function in the cooperative. The situation during last 5 years is as follows:

Year:	1998/99	1999/2000	2000/01	2001/02	2002/03
No. of Branches:	34	34	34	34	34

06. Share Capital:

Due to the changes of the value of a share from Rs. 1 stipulated at the inception of the Society in 1971 to Rs. 10 and Rs. 100 now, there different types of share holders having the same rights. There had been an increase of holders of Rs. 100 shares over a period of time as the BOD has canvassed for it. The present constitution of shares is as follows:

	98/99	99/2000	200/01	2001/2002
Rs. 1 shares	229887.49	229887.49	229887.49	229887.49
Rs. 10 Shares	688085.06	987587.06	685567.06	687297.06
Rs. 100 shares	562071.50	682212.00	760212.00	822312.00
	-----	-----	-----	-----
	1480044.05	1599686.55	1675666.55	1739496.55

The increase of the share capital is mainly attributed to the requirement of relative number of shares for the purpose of obtaining credit facilities from the cooperative society. The members are eligible to receive loans up to 20 times of the share holding. Comparatively Kolonnawa MPCs has its own working capital and the cost of financing is less.

07. Maximum Credit Limit: Rs. 320,000,000

08. Business operations:

<i>Business Units</i>	<i>Units of the Consumer Section</i>
01. Consumer section	- Retail shops 20
02. Rural Banking	- Wholesale units 03
03. Transport service	- Supermarkets 01
04. Fuel stations	- Self Service shops 06
05. Electricity Billing service	- Fuel Stations 01
06. Dhoby contract	- Purchasing centres 01

07. Bakery	- Garbage recycling	01
08. Packeting service	- Nestle agency	01
09. Contracts	- Super saloon	01
	- Hospital supply	01

One could see that all 34 branches do not have their retail shop, and some are without it. Those who do not have shops are confined to process loan applications of the members and elect their committees and send delegates to the general body of the cooperative society.

Business Results for 2002/03:

Description	Profit or loss					
	97/98	98/99	99/2000	2000/01	2001/02	2002/03
Consumer section	4303275	3581944	3077464	5044643	8424752	11528501
Rural Banking section	6204873	11322295	9245239	912572	8091707	10594271
Transport section	16685	(147891)	(152031)	(722041)	(1061429)	(1157126)
Fuel station	586806	446865	575453	907835	1030091	1375550
Electricity billing	98656	82488	128766	127588	202338	299966
Dhoby contract	79919	125074	59507	37379	109277	143102
Contract section	37614	6590	-	174402	715291	82467
Bakery	52512	52512	79012	(105643)	21083	-
Super saloon	-	-	-	-	-	22533

The increase of consumer business over previous year has been 36.84%, which is an achievement as the country average is a decline of consumer business and going back to 1995.

In terms of profitability in consumer operations, except transport service, other services have shown profitability over the years and shown stability. The stock turns in the retail business has been 37 days, which is not that satisfactory, as the ideal would have been 8 days. In Sri Lanka only few cooperatives maintain 30 days even.

The profit margins maintained by the MPCs are as follows:

	97/98	98/99	99/00	00/01	01/02
Gross profit %	2.67	2.47	2.57	2.37	4.03
Net profit %	1.08	0.83	0.86	0.98	1.64

This cooperative has uniqueness in maintaining low gross profit percentage as the average in the country is about 8%. Still many MPCs are incurring losses due to heavy operational costs inclusive of financial costs. Kolonnawa MPCs has been able to retain the competitiveness over the years due to low margins, which is vulnerable to incur losses at any time. It appears that the situation is improving since 2002. On the other hand, the MPCs has been able to maintain low operational costs and financial costs.

Unique result emanating from the business of this cooperative is that consumer business has generated highest surplus. Other MPCs have rural banking section earning the highest surplus. Credit granted to members from the rural banking section is about 49% of the deposits, which again is a reasonable percentage in comparison the national average of 20%. Kolonnawa MPCs has diversified its business to take up other services for the community, which are also earning surplus. Transport business is not doing well, as the vehicles in possession are old and ill maintained. The main business is generated through internal transport of goods to branches etc.

The growth of sectional profits earned over the previous year is 29.1%.

The ratios maintained by the consumer business during the year are as follows:

Gross profit as a % of turnover:	3.2
Net profit as a % of turnover :	1.3
Financial cost as a % of turnover:	0.48
Leakages as a % of turnover:	0.1
Employees cost as a % of turnover:	1.4
Annual Sales per member:	Rs. 24711.90
Annual Sales per employee:	Rs. 3170425.38

Rental for the shop buildings is very low as the cooperative either owns many of the branch shop premises or has taken a long lease from the government.

Kolonnawa MPCs was selected as the best MPCs in the island in 1999.

Kolonnawa MPCs

Balance Sheet for the year from 01.08.2002 to 31.07.2003

	Previous year	Description	Rs.	Cts.	Rs.	Cts.	Description (Fixed assets)	Purchase price	Depreciation	Net worth
	1739496.50	Share capital	2015126.50		4370327.88		Land/buildings	9999012.47	3102769.46	6896243.01
					1511157.95		Furniture & Equip	6380249.12	4170941.14	2209307.98
					1044077.15		Vehicles	8080108.13	3661849.30	4418258.83
	23350341.96	Reserves and profits					Bakery machinery	2304669.55	2304664.55	5.00
		Statutory reserve	25366365.96							
		Add: Allocations								
		For the year	3176208.04	28542574.00	6925561.98			2304669.55	2304664.55	5.00
	30006146.67	Surplus brought Forward						26764039.27	13240224.45	13523814.82
		Add: Surplus For the year	8258140.90	41629408.48	1366301.04		Investments			
	24015398.13	other reserves	24632916.93	24632916.93			Institutional shares			1366201.04
	15872.22	Long term liabilities					Current Assets			
		Peoples bank -					Misc. deposits & investments		244462652.84	
	1797956.00	Cultivation loans	15872.22		208662389.61		Member debtors		15909921.40	
		other long term loans	1797956.00	1813828.22	15008405.03		Misc. debtors		201775655.63	
	267486661.20	Current assets			155775339.94		other assets		19894197.87	
	19336578.60	Misc. deposits	314119971.12		17809031.35		Stock as on 31.07.2003		33091021.20	
	32152159.47	Creditors	22203187.74		18846395.71		Balance stationary stock		963718.58	
		Other liabilities	42020346.04	378343504.90	663284.76		other stocks		87009.98	
	8064098.83	Allocations for Income Tax			195269.69		Forward payments		21974778.20	
		Add: Allocations for the year			18869479.11		Balance in the bank		1287163.54	
	34608055.28	Misc. expenses		1270483.21	10455944.94		Balance with the cashier		4002684.7	
	7367994.26	Bank overdraft		68511770.89			Savings account balance		782463.29	544231267.04
				559121282.90	458319811.85					
				559121282.90						

09. Consumer Business Management

Sales Planning:

Annual sales plans are prepared by the branch shop managers using a specific form using the experience in the current year. Assortment is almost static, and the calculations are made on the market rates. These plans are consolidated at the Centre, and final business plan is prepared by the group of managers and approved by the board. Progress control is rarely undertaken except the analysis of monthly business result sheet known as F28. The review is undertaken by the BOD at its monthly meeting.

Assortment:

Assortment is prepared by the branch managers, but hardly any consultation with the branch committees take place. Normal assortment has about 800 items except the supermarket.

Practically all shops do not carry expensive consumer durables. Fast selling items are in majority, although the stock days are 37.

Perishable are few in the assortment. Groceries and sundry goods take prominent place.

Shop Locations:

The MPCS is still using the shops established in 1970s with few exceptions. The locations are somewhat central to the branch area of operation and have easy access to consumers. Some of the branch shops face stiff competition from the new retailers.

Shop lay out and display systems:

There are 6 self service shops which have followed typical pattern as in the case of similar private shops, which few in the city areas. Normally, the supermarkets with larger variety and merchandise are using self service system in Sri Lanka. The shops at Kolonnawa are similar to Seven Eleven type of convenient store type. However, refrigerated items are few in number.

About 90% of the goods are pre packed and easy to arrange for display.

These shops use square gondola type for display, and many are fixed on to the walls of the shops. Grouping of the commodities and floor sectioning are not that convenient to customers as the walking area and aisles are narrow.

Strategic arrangement of planned purchasing and impulse buying is not that observed.

Check out systems are still as of a manual type as computer systems are not introduced. Cash registers are used for the purpose.

Cleanliness:

Basic cleanliness is maintained by the shops in comparison to shops of many other cooperatives. As the floors and walls are not made of washable material, the cleaning is confined to dusting, sweeping and mopping. Cleanliness in the surroundings is also

observed to a certain extent. Garbage disposal is done daily; hence discarded empties are not accumulated except jute bags which are sold.

Pricing:

Pricing is competitive enough to attract customers. As the purchases are in large volumes, part of which is sold to family shops and authorised dealers as well as used for supply contracts, the MPCS is able to maintain a low price. Mark up is not more than 5%, which is very low in comparison to 10% average maintained by many cooperatives and private dealers.

Inventory Control:

Inventory control is undertaken by using minimum and maximum stock fixed to each shop and maintaining an efficient re ordering system. In addition to routine stock takings the cooperative carry out some surprise checks too. However, the leakage percentage is well under control.

10. Corporate governance System

Current BOD has been elected in 1994. Since then, it has not been possible to hold general meetings due to political rivalries. Registrar of cooperatives has postponed the general meeting although the branch committees have been elected as per the bylaws, once in three years. Present board members do not have strong political affiliations, which has contributed to postponement of general meetings where a new BOD was to be elected. Once in 1999, an attempt has been made to hold the general meeting outside the area in order to avoid political clashes, but rival political party leaders in the area have arranged to kidnap some of the delegates, due to which the meeting had to be abandoned. Kolonnawa, being an industrial urban area, is vulnerable to political clashes.

There has also been a court case by a group of members for holding a general meeting but the Registrar has postponed the meeting once again last year.

However, branch general meetings have been held without interruption. Following are the details:

Year	2000	2001	2002	2003
No. of Br. Gen. meetings	10	10	10	10

Board meetings have been held at least thrice a month to take business decisions. Details are as follows:

Year	1999	2000	2001	2002	2003
No. of BOD Meetings	40	36	35	36	36

The Cooperative Society is assisted by 4 subcommittees appointed by the BOD:

1. Consumer Sub Committee
2. Credit Sub Committee
3. Transport Sub Committee

4. Tender Committee

The recommendations of the sub committees are forwarded to the BOD meeting, which are normally approved. However, the sub committees are represented only by few directors supported by the respective sectional head. Other important stakeholders of the cooperative society such as housewives, consumer groups are not represented.

11. Human Resource Development

a) Membership:

There are about 34000 families who are members of the cooperatives society which means the concentration per branch is about 1000. Majority of the members belong to skilled labour class families and others are from lower middle class families. There are few rich families too are members. Members are drawn to the cooperative as they could receive loans for various purposes at a competitive interest rate with members' guarantees and less hassle.

There is a member relations and education section dealing with members training and development. The events carried out in 2002/2003 are as follows:

Event	No. of events	No. of Participants
Women's committee training	07	126
School children's training	01	120
Students Foundation	10	150
Rural Bank Managers training	09	350
Women members training	10	400
Members awareness programmes	17	572
SME financing training	03	75
Members training	02	200
Employees training (overseas)	01	01

Branch committees and directors training is conducted by the Colombo District Cooperative Council and the National Cooperative Council.

b) Employees:

Employees are recruited as per the cadre requirement fixed by the Registrar of Cooperative Societies and according to the qualifications and the procedure laid down by the Cooperative Employees Commission. The position of the employees is as follows:

	1999	2000	2001	2002
Managerial Grade	14	14	08	15
Supervisory Grade	96	96	55	55
Operational Grade	361	361	183	194

Over the years, while increasing the turnover and the profitability, the cooperative was able to reduce the staff by system re engineering with automation to a certain extent. Banking operations are automated. So far, consumer section is not yet exposed to computerisation.

Employees training are not that systematic, except few training programmes held based on the problems and identified needs. There is no internal training system established. Part of employees training is conducted by the Colombo District Cooperative Council.

The cooperative society has introduced several employee welfare schemes and incentive schemes:

a) **Attendance incentive scheme:** The employees who strictly adhere to leave with permission, reduction of number of days below 2 per month, punctuality, are given an incentive payment of Rs. 1000 irrespective of the status of the employee.

b) **Medical aid scheme:** The employees and their dependents would receive up to a maximum of Rs. 3000 per year against, medical bills. Their contribution is only Rs. 25 per month.

The society also pays one months salary of the employees as bonus every year from the surplus. This is in addition to long term funds such as gratuity scheme.

The cooperative has also introduced a food rationing scheme for the employees, through which they receive food items.

Some of the needy children who are gifted from employee families would receive scholarships from the fund created for the purpose.

There are very few cooperatives in the country that are having medical aid schemes.

12. Special Funds and Reserves:

Kolonnawa MPCs has a unique scheme of utilising the net surplus of the society. Many types of reserves and funds are maintained from the net surplus of the society:

Fund/Reserve	% Utilised from the surplus
01. Dividends on shares	10
02. Employees bonus	20
03. Building fund	10
04. Share transfer fund	10
05. Employees' medical aid scheme	05
06. Employees risk fund	10
07. Attendance incentive scheme	05
08. Employees food rations	05
09. Education & Training	05
10. Common welfare fund	10

11. Property insurance fund	05
12. Employees children aid fund	05