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# ICA GLOBAL FORUM

October 29-30, 1998

Seoul, Korea

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## DOING COOPERATIVE BUSINESS : Asian Experiences and Global Opportunities

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**Theme : Doing Cooperative Business  
- Asian Experiences and Global Oppoprtunities**

**Plenary Session  
: Successful Co-operative Business in Asia**

**Moderator : Mr. Hans Dahlberg, CEO, ICMIF**

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**Theme : Doing Cooperative Business  
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**Past, Present, and Future  
of Consumer Co-operatives in Japan**

**Mr. Shigenori Takemoto  
President, JCCU**

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International Cooperative Alliance (ICA)  
National Agricultural Cooperative Federation (NACF)

ICA GLOBAL FORUM

30 October 1998

Shigenori Takemoto

President of Japanese Consumers' Co-operative Union

## **Past, Present, and Future of Consumer Co-operatives in Japan**

Good morning, co-operative friends,

I am very honored to have this opportunity to speak in the Global Forum, following the ICA Asia Pacific General Assembly Meeting. On behalf of Japan's consumer co-operatives, I would like to talk about the past, present, and future of the consumer co-op movement in Japan.

### **1. The Success of Consumer Co-operatives in Japan**

The consumer co-op movement in Japan has made great progress since the 1960's, with a current turnover of 3.35 trillion yen and 19.7 million members. I would like to point out three key factors in this success.

*The first factor is the co-op's success in harnessing the energy of housewives in a member-based organization by developing HAN groups.*

Japan's consumer co-op movement had been viewed as a community-based effort to cover a wide range of issues, and is supported by all social strata rather than by one specific class of people. The key force behind the movement has been the large number of full-time housewives in Japan. They are the mothers who have the desire to maintain the health of their family members. For them the co-op has been more than a place where they can purchase safe food jointly. It has become a forum for them to participate in society; a place where they have been able to consider various matters in their lives and find their own way. Those housewives, who used to stay at home, began to take part in a range of activities and have now grown to be the driving force behind the movement.

During the developing stage, many co-ops formed "HAN groups" as their basic organizational units. A "HAN group" consists of 5 to 10 co-op members in a neighborhood. Through the HAN group, co-op members relayed their opinions and thoughts about the co-op operations and products to the co-op management, and received feedback from the management. The HAN group was truly a place where members could participate directly in the daily administration of the co-op. To further increase members participation, co-ops established district committees as well as regional committees formed in accordance with local administrative area to supplement the management capabilities of the general assembly meetings.

*The second factor is the establishment of a co-op's unique business structure, "joint purchasing system," through developing safe and reliable co-op products.*

While Japan's economy grew rapidly in the second half of the 1950's, consumer rights were neglected, and we encountered various problems such as environmental pollution and food additives, with no thoughts given to food safety. As far as pricing is concerned, manufacturers controlled the price and imposed unfairly-high prices on consumers.

In this situation, co-ops began to develop alternative reliable products through their own efforts. A unique feature of the co-ops' product development has been the direct involvement of members themselves, as a way to satisfy consumer requirements for safety, reliable quality, low prices, stable supply, and so forth. Members have participated in the product development process including food tasting and sampling. Furthermore they have been directly involved in product dissemination, inspection, and evaluation. As a result of these efforts, CO-OP products are promoted among members nationwide. In addition to the safety issues, we are now developing products that meet the demands for environmental protection and allergy-safe products. Some of our products are developed to give greater convenience or improved functionality. The co-ops have developed a large number of products, and this is becoming core of co-ops' business.

These CO-OP products have been supplied to members mainly through the joint purchasing mechanism. The joint purchasing system began to develop

during Japan's high economic growth period, along with the movement of consumer groups to purchase better products at lower prices. Under this system, co-op member orders products through a HAN group, and one week later the co-op delivers the ordered products to the HAN group. At the beginning, we compiled orders, collected payments, and sorted products manually, but now computers handle most of these complex tasks to reduce overall workloads, and the number of co-ops operating joint purchasing is increasing throughout Japan.

*The third factor is that the organizational and economic capacity of the co-ops earned social recognition through the enhanced collaboration among co-ops.*

With the establishment of many new co-ops and the development of existing co-ops, the number of co-op members increased at an astonishing speed and their economic power improved rapidly. During the expansion process in the 1960's, joint buying organized by prefectural unions and unions for specific industries were consolidated into the Japanese Consumers' Co-operative Union (JCCU). Since 1990 individual co-ops have begun to form regional consortia extending beyond prefectural boundaries, to integrate business operations, and to conduct product development and joint buying. Subsequently, the Japanese Consumers' Co-operative Store Modernization Organization (COMO Japan) was established for nationwide collaboration with 11 major co-ops. While Japan has 650 co-ops, we can find many differences between individual co-ops, from political ideologies to their approaches to product development. However, by collaborating on common issues and increasing joint actions, the co-op movement has attained social recognition.

## **2. Changes in the Environment Surrounding Co-ops and New Challenges**

While environments are undergoing global and historical changes, co-ops are encountering new challenges.

*First of all, competition in the retail industry has intensified with deregulation.*

Since the beginning of the 1990's, after the collapse of the bubble economy,

consumers' value systems and purchasing behavior has changed drastically. The economy continues to be sluggish and consumer spending has been dropping. On the other hand, Japan's industrial structure is changing along with the globalization of the economy, and international price wars are escalating. Furthermore, prior to abolishing the law concerning the adjustment of retail business operations in large-scale retail stores, regulations have relaxed drastically, and the opening of new large-scale chain stores is accelerating. Because of prolonged low consumption levels and intensifying competition, an increasing number of co-ops are now suffering severe financial difficulties.

The key to beating the competition lies in meeting the needs of consumers and in creating low-cost operations. Only winners who have sufficient levels of revenue and have satisfied fully consumers' needs will be able to survive into the 21<sup>st</sup> Century. Co-ops are no exception from this scheme.

*Secondly, lifestyles and needs of consumers and co-op members alike have changed greatly, and the changes are affecting the co-op organizations and their businesses.*

In the past, full-time housewives have been the primary participants and strongest supporters of the co-op movement. However, in the late 1980's, women's lifestyles have begun to change as they participate more fully in society, and those housewives have begun to work outside home or follow cultural pursuits. There is now an urgent need for co-ops to restructure and adjust their businesses to the changes in society.

To current co-op members, the co-ops' joint purchasing system is one option along with store and catalogue shopping. Because of this change, co-ops have begun a new individual home delivery service for members who can no longer participate in joint purchasing. The volume of individual home delivery is increasing rapidly every year.

*Thirdly, the number of co-op members and the share capital are increasing, but volume of turnover and profit are decreasing. This means that the co-op businesses have not been able to meet the growing expectations of the consumer.*

While the co-op retail business has shown a large growth, its share is still very small; only 2.5% of national retail sales and 5.5% of the food business. Co-op members buy only 15% of their total food purchases from co-ops, which is considered low. Members' per capita purchasing volume is decreasing in recent times. In 1997 the total retail sales for all co-ops in Japan was slightly less than for the previous year. This implies that CO-OP products are not meeting members' needs completely. The cause of this poor performance is the reduced advantage that CO-OP products now have over products sold by private supermarkets, which started focusing on meeting customer needs. Therefore, it is vital for co-ops to develop low-priced products as well as higher-quality and co-op value based products through member participation to develop and re-evaluate products for safety, quality, price, environmental protection, user-convenience, etc.

### **3. Vision for the Future**

As we are soon to enter the 21<sup>st</sup> Century, co-ops must clarify their role and direction by establishing a fundamental philosophy that defines their positioning and ideals. In 1996, the Japanese Consumers' Co-operative Union created Co-op Ideals and Visions for the 21<sup>st</sup> Century. The co-op ideals for the 21<sup>st</sup> Century are "The creation of a more human lifestyle and sustainable society through the concerted efforts of independent citizens."

Currently our value systems are changing because of various factors that include a rapidly-aging population, a falling birthrate, increased women's participation in society, diversification of lifestyles, pursuit of leisure activities, as well as personal fulfillment (from an emphasis on materialistic satisfaction to spiritual one), environmental awareness, increasing health consciousness, and a growing feeling of insecurity as to what will be the basis of living in the next Century. However, in this situation, co-ops aim to extend their development into the 21<sup>st</sup> Century by responding to the expectations of their members and society. In order to achieve this goal, our tasks are to construct a framework of business that covers a wide range of services to meet the needs of members' daily lives, and to harness the spontaneous and creative activities of our 20 million members.



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**Theme : Doing Cooperative Business  
- Asian Experiences and Global Oppoprtunities**

**Successful Co-operatives Business in Aisa**

**The Insurance Co-operative Movement in Singapore  
with special reference to its current issues and future tasks**

**Mr. Tan Kin Lian  
Chief Executive, NTUC Income**

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International Cooperative Alliance (ICA)  
National Agricultural Cooperative Federation (NACF)

**Successful Co-operative Business in Asia**  
**The Insurance Co-operative Movement in Singapore with special**  
**reference to its current issues and future tasks**

**NTUC INCOME Singapore - from \$1.2 million to \$3.5 billion in 27 years**

**1. Covering a real need**

NTUC INCOME was the first co-operative to be set up by the National Trade Union Congress in 1970. Our mission statement which ever since has set the tone for our activities stated that NTUC INCOME will "provide insurance and related services to meet the needs of the people at the lowest possible cost and of best possible quality and benefits based on co-operative principles".

Right from inception, INCOME concentrated on the workers who had a real need to purchase life insurance in order to save and provide for their families. As a co-operative society, we were more concerned with the welfare of the workers rather than monetary gains. We wanted to convince workers that life insurance was one of the best ways to ensure future financial security. To that end we adopted a unique sales and marketing approach by recruiting trade union members to become part-time insurance agents so that they can reach out to their working colleagues.

**2. Policyholders from all walks of life**

NTUC INCOME has shown a strong and steady growth. In 1970 INCOME started with only \$1.2m in assets and premium income of \$0.4m. In 1997 the premium income reached \$923m and assets \$3.5b. We are today a market leader with the number 1 position in general insurance. In life insurance we are the fourth largest.

	1970	1975	1980	1985	1990	1995	1997
Assets (\$'m)	1.2	14	73	209	766	2,409	3,548
Premium Income	0.4	7	27	56	190	575	923
No. of life Policies ('000)	-	28	66	98	234	463	574

Behind this constant and strong growth has been a steady innovation of several new insurance plans to provide for education, investment, protection, retirement, health and general insurance, in pace with the changing lifestyle of the workers. We offer over 50 life, group, health and general insurance plans. Our 891,000 policyholders come from all walks of life including professionals, managers, workers, housewives and students.

### **3. Low expense rate - high bonus to policyholders**

Our mission statement guide us to provide insurance and related services at the lowest possible cost and best possible quality. To achieve this, we have to operate efficiently and reduce our expenses. In 1996, our administrative and selling expenses amounted to 20% of the premium, as compared to 30% for the insurance industry.

With a lower expense ratio, we are able to provide more competitive premium rates to the benefit of our policyholders. In spite of the lower expenses, we are able to maintain a high level of service, which is at least as good as our competitors.

More than 98% of our surplus was distributed as bonuses to our life policyholders or retained for the future. Less than 2% was distributed as dividends to shareholders. As we distributed most of the surplus to our policyholders, we were able to provide them with more attractive returns. This gives us a competitive advantage.

Apart from the annual bonuses, we also distribute additional bonuses to our policyholders on special anniversaries, such as our 20th and 25th anniversaries.

Let me also illustrate with a real-life example: A policyholder took up a 20-year endowment policy in 1975. Based on the bonus rates at that time, the policyholder expected to receive a projected benefit, inclusive of accumulated bonus of \$16,400 at the end of 20 years. However, when the policy matured in 1995, the policyholder received an actual payment of \$21,453. The higher payment was due to higher rate of bonus distributed to the policy, the additional bonus on the special anniversaries, and the special bonus on maturity.

### **4. Our contribution - innovative insurance plans**

In the early years, we reached out to large number of workers by offering insurance policies with small sums assured. These were the people who needed insurance most. To make premiums affordable, we collected the premium in monthly installments through a salary deduction scheme, instead of an annual premium. In 1978, we introduced a new scheme to collect the monthly premium by GIRO deduction from the bank account.

In 1985, we were the first life insurer to introduce an annuity plan to retirees who prefer to invest a capital sum to obtain a regular monthly income payable for a lifetime. Today, we are the leader in the annuity market, with a market share of 48%.

In 1987, we introduced our education policy, which is a savings plan for a policyholder to save for the tertiary education of a child. In the same year, we introduced an insurance plan for home owners to cover their mortgage loans and pay off the outstanding loan in the event of premature death of the policyholder.

In 1988, we introduced our living policy, which pays out the full benefit on the diagnosis of any of 30 dread diseases. This payment allows the policyholder to meet the high cost of treatment for cancer, heart attack, stroke, kidney failure and others.

In 1993, following a change in the regulations of the Central Provident Fund, INCOME introduced several plans that allowed the members to use their savings in the fund to purchase insurance that provide them with protection and a higher return.

In 1994, INCOME launched its managed healthcare system with the aim of curtailing the escalating medical costs and at the same time provide comprehensive healthcare with a combination of quality and affordability.

In 1996, INCOME introduced a scheme that allows the owner of a property to mortgage it in return for a monthly income, which is charged against the property. This is especially helpful to the owners who are retired, and are "asset rich and cash poor".

We have a practice to settle claims promptly and fairly. This practice was illustrated in a good way at a recent tragic air crash. Upon hearing the news of the crash and the casualties involved, we searched our database for all the policies that belonged to the victims. We were the first insurer to announce a simplified claims procedure which does not require the production of the death certificate.

##### **5. Our contribution - building a better life for the people**

NTUC INCOME is also involved in several non-insurance activities that contribute towards building a better life for our policyholders and the people of Singapore. These include the operation of 25 fitness centers all over Singapore with a low membership fee. Another example is our car sharing co-operative.

Our fitness centers were started to promote a healthy lifestyle through regular exercises. The car sharing co-operative is aimed at providing an alternative mode of transport to those who cannot afford their own car but need a private car for the special occasions.

We are active in promoting charity, arts, sports, education and a healthy lifestyle. We have received several national awards for our contribution in these areas.

We also encourage our employees and sales agents to participate in these community projects. They contribute regularly to the community chest, to our gift box project and blood donation drives.

We also offer a range of attractive benefits for our policyholders. They include the following:

- A privilege card that provides discounts at various outlets

- Dental services
- 24 hr vehicle breakdown service
- Holiday chalets
- Household repair services
- Gift showcase
- Medical checkup
- Short term loans

## **6. Future challenges**

Our growth and future success will depend on our understanding and efficient managing of the forces that will shape our business in the years to come. Among these challenges are: a more competitive environment, direct marketing and new marketing channels, more demanding customers and the new information technology.

The technological development proceeds at a lightning speed. It allows a business to process its transactions more efficiently and cut operating costs. Information technology can also improve claims handling and quality of service.

Technology is a big industry issue. One we must continue to manage well for long-term success. INCOME has led the way in the local insurance market in the use of a wide range of delivery channels to service our customers. These include telephone link, NETS kiosk, self-service terminal, Internet and the local network, Singapore One. Our web site, started in 1995, has been voted one of the best in Singapore. We now sell some insurance products on the website, including our personal accident, travel insurance and cargo insurance plans. However, the development is fast. Therefore, this is a field where we will be very active to enforce our position.

Our challenge is to integrate the direct channels of sales with our 4,000 sales agents to increase the sales of our insurance products and provide improved levels of service.

It is a world-wide trend that the competition is increasing. Singapore is an open market which has attracted many players. Today, no less than 58 companies are competing on a market of only 3 million people. In life insurance as well as non-life, the price of the products comes into focus in the competition. Low cost is a key to low prices. INCOME's cost level is also by international standard very low.

Insurance customers are now better informed, more knowledgeable and creating new demands on our services. The companies that can give access to products and services "anytime, anywhere" 24 hours a day, 7 days a week, whatever the delivery channel, will be the winners. We must respond to this changing environment. That means that we have to be more efficient - and still keep our co-operative values.

Insurers must also concentrate on covering the entire need of insurance protection for their customers and their families, not just sell individual products. A policy for "one-stop for all your insurance needs".

INCOME is ready to meet all these challenges and, I am confident, that we will be able to emerge a stronger insurer in the process. In the past, co-operative principles have helped INCOME grow. In the coming years, INCOME will continue to respond to the challenge of "Doing things even better, cheaper and faster" than before and at the same time help to make co-operative values an important part of the lives of Singaporeans too.

Singapore 06/07/1998

Tan Kin Lian

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**Theme : Doing Cooperative Business  
- Asian Experiences and Global Opportunities**

**Sanasa  
as an Alternative Development Approach**

**Mr. P.A. Kiriwadeniya**

**President, Federation of Thrift and Credit Co-operative Societies**

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International Cooperative Alliance (ICA)

National Agricultural Cooperative Federation (NACF)

## **Sanasa as an Alternative Development Approach**

### **1. What is Sanasa ?**

- 1.1 Sanasa is the English transliteration of the Sinhala acronym for 'Thrift and Credit Co-operative Society (TCCS)'. The term Sanasa (or SANASA) is also used to represent the entire movement covering nearly 8,000 Thrift and Credit Co-operative Societies and the associated networking arrangements covering nearly 20 percent of the population in Sri Lanka in respect of both members and users.

### **2. Sanasa Vision**

- 2.1 **Sanasa vision is the establishment of a new social order based on co-operative principles and values.**

### **3. Sanasa Mission**

- 3.1 The main role of Sanasa has been that of an institution for saving and credit by people bound by mutual trust and understanding. Mutual trust can either be based on proximity of residence or close relationships of people working in a single establishment. **We identify these two types of affiliation as**

- a) **Community Affiliation and**
- b) **Occupational Affiliation**

- 3.2 Members brought together by community affiliation are mostly from the rural sector. They comprise the majority of our membership. Community affiliation being stronger, the societies based on community affiliation can function as unlimited liability societies. Most of the societies formed on the basis of occupational affiliation function as limited liability societies. There were 6,773 unlimited liability (primary) societies and 851 limited liability (primary) societies by the end of year 1997.

**The core areas of service by a Sanasa primary society are**

- a) **Promotion of thrift habit**
- b) **Accumulation of saving, and**
- c) **Use of savings in the form of credit for development**

- 3.3 The above steps comprise a process. It is a development process. Bringing the people together into this development process is the **first stage** of Sanasa development process.

- 3.4 The **second stage** of the Sanasa development process is the extension of its influence to the rest of the society. The non-members, women, youth, children and other groups are involved in development oriented programs. The membership of only about 15 - 20 at the primary level extends to much larger number at the second stage. The **third stage** is the conversion of the society to a grass roots level development organisation. **The Sanasa mission explained as a three-stage process** may thus be restated as :

- a) **Bringing people together into small groups**, through community bondage or occupational bondage either on the basis of community or



place of work and promotion of thrift, accumulation of capital, and investment of savings thus harnessing savings for development.

- b) **Extension of societies with a small group of members to cover the society** at large by bringing in non-members, and other groups such as youths, children and women.
- c) Improving the society to **take over the responsibility of community development.**

#### **4. The Early Period 1906 - 1978**

- 4.1 **The first Sanasa society was registered in 1906.** The socio-economic background of the early 20th century in Sri Lanka, which led to the formation of Sanasa, reveals the factors that contribute for the growth and development of Sanasa.
- 4.2 Under British rule in Sri Lanka, particularly during the second half of the 19th century, there was an expansion of plantation industry comprising mainly tea, rubber, and coconut. The expansion took place largely at the expense of rural subsistence agriculture based on paddy cultivation. As a result the peasants were compelled to live in small hamlets squeezed in between vast expanses of new plantations. Together with the expansion of the plantation sector, an economy based on cash transactions in place of barter system came in to being. The peasants in distress relied on borrowings to tide over the day to day problems they faced. Unscrupulous moneylenders compounded the problems of subsistence agriculture. Rural indebtedness resulted in loss of the ownership of small-holdings that were the most convenient form of collateral for borrowing.
- 4.3 Co-operative movement was gaining recognition in contemporary Europe as a means of alleviating the hardships caused by the emerging industrial society. The idea of co-operation was promoted in Sri Lanka with the blessings of the then British government as one solution to the problems caused by the plantation based economy.
- 4.4 **Sanasa spearheaded the development of the co-operative movement in Sri Lanka.** Up to 1940 in respect of the total number of societies, Sanasa was ahead of other co-operatives. However, during the Second World War government gave priority attention to consumer co-operatives which were formed to handle the distribution of commodities in short supply and the Sanasa societies lagged behind. The progress of Sanasa continued on the same lines until a new chapter in its history opened with a package of changes designed to enable Sanasa to face the challenge of the market economy ushered in 1978.

#### **5. 1978 - A Turning Point**

- 5.1 Having realised the vast potential of Sanasa, I commenced my research on Sanasa in mid 1970s. My research ( I selected Walgama Sanasa Primary Society for my case study) revealed several important characteristics :
  - a) In 1978 there were 935 societies in all (in addition there were 363 societies formed on the basis of occupational bondage) functioning as isolated units.
  - b) Services were confined to the members.

- c) The society had an elite character. The Membership was mostly confined to the more affluent in society.
- d) Due to the confined character of the society, savings came only from the members and the funds were very meagre. Financial services were not attractive because the funds were not adequate.
- e) The services were not offered on a regular basis. There was no office open at a predetermined time.
- f) There was no education or training of members and office bearers.
- g) There was no representation of the movement at national or even district or provincial level. In other words, there was no legitimate body to speak on behalf of the movement.

5.2 The changes that followed the above findings were many and varied.

- a) **The movement was structured into a three - tier system.** The societies in each district were brought to form Unions. The Unions formed a Federation at national level. Henceforth the Unions could represent the movement at district level and the Federation could represent the movement at national level.
- b) **Participatory democracy was accepted as a basic principle observed at all levels.** The primary societies holds monthly meetings and annual general meetings in which all members participate and all decisions are taken with the consent of the members. The Unions hold quarterly meetings and annual meetings where representatives from all TCCS participate. The Federation holds biannual and annual meeting with the participation of Unions as members. Sanasa remains free from all forms of influence, political or otherwise.
- c) **Education and training received special emphasis. A major extension effort was launched. New societies were formed and new members joined the movement in large numbers.**
- d) **Sanasa gained recognition both at national and international level.** Among the international partners we began to interact with were International Co-operative Alliance, World Council of Credit Unions, Canadian Co-operative Association and other parallel organisations with a similar culture.

5.3 The intervention of 1978 has to be set against the background of the national economy during this period. 1978 marked the entry of Sri Lanka to market economy. The need to face the new challenge provided an impulse to the changes of 1978. Unification of the movement under three-tier system within the framework of common rules and regulations ( complete uniformity is not implied) was a tremendous source of strength.

5.4 **The overall impact of the 1978 intervention was a phenomenal growth of Sanasa in respect of number of members, number of societies, and capital. The new strength is also reflected in the growth of savings and loan portfolios. ( Table 1)**

Table 1. Growth of Sanasa 1978 to 1997

Item	1978	1997
Number of Societies	1,298	8,424
Number of Members	209,416	785,505
Savings (Rs millions)	42	3,895
Credit (Rs millions)	88	2,335
No. of youths (Age 18-35)	NA	252,599
No. of female Members	NA	423,903
Fixed Assets (Rs millions)	7	361

US \$ 1 = Rs 65

## 6. New Sources of Strength

6.1 Open market economy of the post 1978 period had many negative impacts. The poorest segment of the population adversely affected by the changes contributed to the social unrest of late 1980s. In the south of the island, the youth took up arms against the government asking for better privileges. In the north a prolonged armed struggle based on ethnic and economic grievances began. Many leaders of social and political movements lost their lives. Sanasa also lost a share of its cadres.

6.2 Sanasa had to look for additional sources of strength. Sanasa began as a single purpose co-operative, but the demand of the members for services other than credit and savings facilities had to be met. After closely evaluating the experience of multipurpose co-operatives, we came to the conclusion that the establishment of several institutions under different enactments, without confining ourselves to the Co-operative Act, could be a better source of strength. Development of several subsidiaries under Sanasa was the result. **Four areas were identified as important for the development of subsidiaries, both in respect of contribution for national development and generation of profits for the Sanasa movement.**

- a) Banking
- b) Insurance
- c) Communication
- d) Production and marketing

6.3 The subsidiaries are given the capacity to be competitive in the open market by developing requisite skills. These institutions specialise in different areas by procuring necessary skills and talents which may not necessarily be available in the co-operative sector.

## 7. The Subsidiaries

### 7.1 Banking - Establishment of the Sanasa Development Bank Ltd.

7.1.1 Capital accumulation and disbursement of credit had to be structured to meet the demands of the economy. While the primary role of Sanasa could continue, a bank was necessary to play a leading role in the financial

market as a stake holder in the national economy. Having realised this, a Development Bank owned by Sanasa was mooted in 1990.

After 7 years of representations to various authorities, which was a frustrating experience, we succeeded in the establishment of the Sanasa Development Bank (SDB). (Our request to establish a commercial bank was not granted because we failed to muster Rs 500 million but permission to open a commercial bank after we reach the stipulated target remains. We hope to be able to reach this target in due course).

7.1.2 **Sanasa Development Bank was incorporated as a public limited liability company on 6 August 1997.** The Bank was registered as a licensed specialised bank by the Central Bank of Sri Lanka on 21 August 1997 under Banking Act No 30 of 1988, as amended by the Banking Amendment Act. No 33 of 1995. The Bank opened for business on 25 August 1997 by establishing its first branch at 106, Dharmapala Mawata, Colombo 07.

7.1.3 There are six development banks in Sri Lanka and SDB is one among them. All these banks are considered specialised banks but the **SDB holds a very special position due to the following reasons:**

- a) **Broad based ownership of the bank.** The majority of the owners are farmers, artisans, fishermen, vendors, agricultural and plantation labourers and such other persons who normally fall into the low income category.
- b) **SDB has branches like any other bank but in addition it will have Agency Banks in operation in accordance with a business agreement.** The Central Bank has agreed to recognise Grade 1 Sanasa societies as primary level as Agency Banks of the SDB. These societies will forge a working arrangement with the SDB to function as Agency Banks while being autonomous Sanasa societies.

7.1.4 SDB lays heavy emphasis on share capital than deposits in strengthening its financial base. We trust that this will improve our equity a great deal.

By way of further elaboration of the role of the bank I give below the vision, values, and the mission of the Bank.

**Vision** of the Sanasa Development Bank.

**To raise the income levels of the poor through co-operative and development oriented financial services.**

7.1.5 Values of the Sanasa Development Bank

- a) To foster and maintain the highest ethical standards at all levels of the bank and its agencies in dealings with the customers, stock holders and competitors.
- b) To be **innovative and demand driven** in providing financial services.
- c) To be courteous and professional in all business.
- d) To **avoid discrimination** on the ground of religion, sex, ethnicity and income level.
- e) To refrain from financial services for **unethical and illegal pursuits.**

### 7.1.6 Mission of the Sanasa Development Bank

To establish a Development Bank equipped with the capacity to provide a range of financial and complementary services focusing special attention on :

- A) Facilitating access to financial services and **business advisory services** for the poor, the **small business** and the **micro entrepreneurs**
- B) Developing and extending the out reach of rural financial market and to service as the **apex credit institution** of the thrift and credit co-operative movement with the objectives of
  - a) Strengthening the SANASA movement to become a sustainable rural credit institution and
  - b) Raising the income levels of the poor through sustainable approaches.

7.1.7 The bank has already opened **8 branches** and the opening of 10 branches before the end of the year 1998 is envisaged.

7.1.8 The progress made by the SDB so far is summarised below:

Deposits. 1998. (Rs millions)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
Savings	52.30	55.20	47.20	54.00	56.30	58.80	84.99	90.23
Fixed	242.80	263.60	276.80	279.60	297.30	298.40	302.20	308.24
Total	302.10	318.80	323.00	333.60	353.60	357.20	387.19	398.47

Advances 1998.

	Jan.	Feb.	Mar.	Apr.	May.	June	July	Aug.
Advances (RS millions)	28.30	38.70	62.20	94.40	115.50	142.70	166.52	206.27
Monthly Increase %		36.75	60.72	51.77	22.35	23.55	16.69	23.87

## 7.2 Insurance - All Lanka Mutual Assurance Organisation Ltd.

7.2.1 Risk in investment and disbursement of loans is a factor that has affected the Sanasa movement. In its limited role as a banker to a local community bound by mutual understanding, the risk factor may not have been important. However, as the role of banking is enhanced with larger disbursements difficult to be guaranteed by mutual trust, formal institutional arrangements have to be made to cover the risk factor.

7.2.2 Our research revealed that societies formed to assist in the event of funerals (Popularly known as Death Donation Societies) and Sanasa societies were the most important means available to low income groups to overcome common risks among them. Based on experience of these institutions in bearing risks the **All Lanka Mutual Assurance**

**Organisation (ALMAO) was formed in 1992 by Sanasa. The mission of ALMAO is make insurance cover available to the poor.**

7.2.3 In 1997 the services of ALMAO were extended to cover the present role it has taken upon itself. Service at present broadly covers

- a) Life insurance
- b) Loan protection and guarantee of deposits.

7.2.4 In addition ALMAO, as an agent of the Sri Lanka Insurance Corporation, extends cover to all risks covered by this corporation. Premium is kept low in order to make the insurance cover available to the poor. with low premiums, a higher indemnity than is normally possible under heavily capitalised insurance companies, is possible. We spend less on advertising because the society network is wide and effective. A parallel expansion of ALMAO with subsidiaries like the SDB Branches and SDB Agency Banks supported by Sanasa business development activities is expected.

7.2.5 Government has not granted company status to ALMAO, but we have registered ALMAO under Societies Act We have applied service for registration under the Companies Act and it appears that our experience will be as painful as the experience we had in obtaining licence for the SDB.

The principal re-insurers of ALMAO are the Insurance Corporation of Sri Lanka Ltd. and the National Insurance Corporation Ltd..

7.2.6 The performance of ALMAO is summarised below.

	1995	1996	1997
Institutional Policy holders	217	297	368
Individual Policy holders	4,825	6,430	18,155

### 7.3 Communication - Rural Agency Post Office Services

- 7.3.1 Communication was identified as an area which demands priority attention in the modern social context. **The improvement of access to information and knowledge was the basic concern in selecting communication as an important area.**
- 7.3.2 The Postal Department of Sri Lanka has not only failed to reach the remote rural areas but also was found wanting in adjusting to the restructuring requirements of the open economy. **The proposal by Sanasa to extend the communication services to the rural masses was accepted by the Cabinet of Ministers including Her Excellency the President. The establishment of the Rural Agency Post Office (RAPO) services by Sanasa was the result.**
- 7.3.3 Our target for 1998 was the establishment of 60 Rural Agency Post Offices, but we have already exceeded this target by 11 and 48 more societies have applied for permission to open Agency Post Offices. We now propose to extend our services by establishing a Courier Service known as Sanasa Courier Service with over 8,000 Sanasa societies as our contact points. Our proposal is to change the Post Office to a Post Shop where all services pertaining to mailing and information will be available. This service will also be registered as a company.

7.3.4 **The service will provide a linkage to the rural communities through fax and telephone and eventually e mail and networking arrangements to be in contact with world outside their village.**

Marketing in rural areas suffer from non-availability market information. This is one aspect of the possible benefits of improving communication.

#### **7.4 Production and Marketing - Sanasa Producer Consumer Alliance Ltd.**

7.4.1 Improvement in production and marketing holds the key to economic development. Sanasa has responded to this need from the early stages. However, these efforts were mostly confined to the facilitation of sales in market places close to area of production. Progress was slow and disconnected.

7.4.2 In order to be better organised to face this need, a company owned by Sanasa, **Sanasa Producer Consumer Alliance Ltd. ( known as SANEPPA, a term based on the local acronym) was registered on 27 June 1995 under Companies Act No 17 of 1982.**

7.4.3 Since 1997, Sanasa has formulated under the direction of the above company a plan with four complementary components to address the problem of production and marketing. These components are:

- a) Technology transfer for enhancement of production and marketing
- b) Providing prompt information on supply and demand situation so that both production and sales could be planned.
- c) Linkage with different market networks.
- d) Project formulation and business consultancy services.

7.4.4 The above plan includes the establishment of Business Development Centres (BDCs) in different parts of the island connected to a co-ordinating centre in Colombo. Two BDCs and the co-ordinating centre in Colombo have been already established. Establishment of 20 BDCs before the year 2,000 is envisaged.

7.4.5 Government has already recognised our plans for the development of production and marketing through SANEPPA by approving assistance to us through the ADB funded Southern Province Development Project.

#### **7.5 Infrastructure Development - Community Infrastructure and Resource Development Services**

7.5.1 Yet another 'pillar' has been added to the four pillars discussed above and that is a service for infrastructure and services development. Rural societies remain rural because of shortcomings in infrastructure and resource development. A service with a technical bias has been developed to address the issue. It is designated "**Community Infrastructure and Resource Development**" (CIARD) of Sanasa.

7.5.2 The main objectives of CIARDS are

- a) Community based infrastructure development
- b) Project Management

- c) Institutional development related to community infrastructure development
  - d) Project appraisal
  - e) Liaison with local and international consultancy teams to undertake infrastructure development projects
  - f) Monitoring and evaluation of infrastructure development projects
  - g) Consultancy work related to Community infrastructure development
- 7.5.3 We have established this services only three months ago and it is too early to discuss its progress.

## 8. The Sanasa Campus

- 8.1 Beginning with the intervention of 1978, a planned approach to education and training has been adopted. These plans crystallised into a separate institute for training in 1988, established in Kegalle, under the name '**Sanasa Campus for Co-operative and Development Studies**'.
- 8.2 The Sanasa Campus brings under its wings the human resource development of the entire Sanasa movement. It is involved in the development of knowledge and attitudes of the membership and the strengthening of professional capability of staff at all levels.
- 8.3 Colleges are being established in the Campus for each of the 'pillars' or special approaches explained above. We propose to apply to the University Grants Commission for license to function as an university by the year 2005.

## 9. General Remarks

- 9.1 The overall picture emerging from the aforesaid changes in strategy has several important characteristics:
- a) **Sanasa retains its co-operative and democratic character.** In fact these characteristics are jealously guarded. Sanasa is still a large collection of autonomous societies established under the co-operative law democratically controlled by the members.
  - b) Sanasa has developed instruments under its control capable of action at the national level in competing with other establishments in the capitalist economy on an even playing field. Sanasa does not claim special privileges as a co-operative. The Sanasa Development Bank does not operate under the Co-operative law or the Ministry of Co-operative Development. It operates under the law pertaining to banking under the Ministry of Finance. ALMAO and SANEEPA, when finally established as companies, will function under the Company Law.
  - c) **The new institutions, though established under laws other than co-operative law, will function not as those driven by profit motive but will be guided by the motive of service and co-operative values.** These institutions will have more than a 'Human Face', they will have 'Human Values'. These institutions will have the decision taking ability and management capability to compete with other similar institutions of the market economy.



- a) **The Sanasa Development Bank will be deeply conscious of the need for re-investing capital drawn from the rural sector in the rural sector itself.** The bank will not drain the resources of the rural sector for the benefit of the city.
- b) **SANEEPA will ensure a reasonable profit for the producer and endeavour to supply goods direct to the consumer.**
- c) **ALMAO will make the less privileged neglected sector of the economy a safe area for investment** and support both the Sanasa Development Bank and SANEEPA in investment promotion.

## 10. Conclusion

10.1 Over one and half centuries of the development of market economy and nearly three quarter century of an economy with state control, offer ample opportunities for the study of the weaknesses and strengths of both systems. We take a path between market economy and state controlled economy. Backed by nearly one century of its own experience, Sanasa is poised to enter the 21<sup>st</sup> century as an alternative development approach.

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**ICA GLOBAL FORUM**

October 29-30, 1998

Seoul, Korea

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**Theme : Doing Cooperative Business**  
**- Asian Experiences and Global Opportunities**

**The Body Shop Story**

**Ms. Jacqui MacDonald**

**Vice-President, The Body Shop International Plc.**

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International Cooperative Alliance (ICA)  
National Agricultural Cooperative Federation (NACF)

Business can and must be a force for positive social change.

Over the past decade, while many businesses have pursued "business as usual", The Body Shop has been part of a different, smaller business movement - one that has tried to do business in a more responsible and thoughtful way.

The Body Shop began with the vision of one woman, Anita Roddick, who captured the moment in 1976 when she set up shop in Brighton in the South of England, selling home-made naturally-based products.

Since 1976 The Body Shop has grown from a single shop into a large multi-local business. It is a international operation which unites thousands of people working towards common goals. It is a franchise operation which now has 1634 shops in 47 countries, trading in 24 languages across 9 time zones, via more than 40 distribution centres.

From the very beginning The Body Shop was concerned about how it did business. Its first distinguishing feature was its stance on animal testing in an industry which regularly used animals in cruel ways to test products. This found a resonance with customers. Its second feature was The Body Shop's concerns for the environment and customers were invited to bring their empty bottles back for refilling long before recycling became the buzz word it is today.

Its last but not least distinguishing feature was The Body Shop's concern for social issues and there are three main ways in which this concern has been expressed.

1. Campaigns
2. Community involvement
3. Community Trade programme

With shops in 47 countries around the world, The Body Shop has massive trading power. We want to direct some of that to communities where trade can make the most difference. More than that, we want the trade to make a double difference - not just economically, but through enabling communities to invest in their futures.

Community Trade is a targeted purchasing programme that sources natural ingredients and accessory items from community based enterprises around the world. Community Trade is essentially about providing market access to those groups who would normally have limited opportunities to enable people to make their living, feed their families and how they educate their children.

When The Body Shop made its first steps to trade with communities in need, in the late 1980s, it knew it was entering uncharted territory for a high street retailer. There was no blueprint for setting up trading relationships between a large company and small community based enterprises.

Community Trade was and is still today an experiment where trial and error are part of the learning process. And it's about celebrating! We've been buying paper products from GPI in Nepal since 1989, sisal body scrubs from the Nahnu Indians of Mexico since 1991 and blue

corn from the Santa Ana Pueblo of the United States since that same year. Ten years on, The Body Shop are now trading with over 35 communities in Africa, Asia, the Americas and Europe. These communities sell us the natural ingredients that go into some of our most popular and effective products as well as a wide range of accessories.

We've established some guidelines to help identify the right conditions for trade, for both the communities and The Body Shop. Thanks to these guidelines we're making better matches between the communities' needs and our needs.

What you can't see in our shops are the natural ingredients in their raw form. For example cocoa butter which has been extracted from the cocoa bean for centuries by people aware of its great moisturising properties. It is a wax like solid which melts at body temperature to lubricate and moisturise the skin.

Recognising the value of this fantastic natural ingredient The Body Shop now uses it in a range of soothing products, including Cocoa Butter Hand and Body Lotion, Peppermint Foot Lotion and The Body Shop for Men Face Protector.

But to some communities, it benefits much more than just their skin. The cocoa butter in most of our products is made from cocoa beans supplied by Kuapa Kokoo Ltd in Ghana, a growing and successful company owned by over 25,000 farmers.

We are proud to be able to help Kuapa Kokoo or 'good cocoa growers' as it translates in the local Twi language to create a better quality of life for themselves.

The farmers supply the beans that are made into cocoa butter, which ultimately makes your skin so soft and smooth. Cocoa butter melts on your skin as chocolate melts in your mouth. It's a proven recipe for success. Kuapa Kokoo is one of a small number of organisations that conform to internationally recognised fair trade criteria. The farmers are guaranteed a fair deal. They plough money back into the community - on basic necessities such as health and education. So benefits include both more money for the farmers and a trust fund for community needs.

The bean trail is long. It's fascinating. The farmers cut open the pods, they scoop out the beans, they dry them and they ferment in the sun. The beans then have to go to the Netherlands to be ground and pressed into butter before The Body Shop gets its hands on it!

We are proud to be the first cosmetic company ever to use fairly traded cocoa butter but we must question - where are the others?

The aim of the Community Trade programme is to provide an income to the producers, improve their, and their community's quality of life and ultimately work towards the eradication of poverty and inequality world wide. Based on trust and respect, we buy good quality product at a price which covers the price of production and enables investment in the community's future.

The Body Shop is not like most skin and hair care companies. We are not prepared to compromise our values in the pursuit of profit - we want profit with principles.

Everyone benefits through the Community Trade programme: producers and communities benefit, The Body Shop get a product of which it's proud and customers also get a fantastic product. An important aspect of Community Trade is that these trading relationships can continue to grow and develop.

What it comes down to in the end is a fair deal all around, promoting confidence and independence for communities in need while customers get great products knowing the story behind the label.

Now in another continent The Body Shop have been buying hand woven buri boxes from a co-operative called Barcelona Multi-Purpose Co-operative Inc. (BMPCI) on the southern tip of the island of Luzon in the north of the Philippines since 1995.

Most of its 17,000 inhabitants are employed in fishing, farming or handicraft production but these generate only a small income and for most people life is a struggle. They live in bamboo houses, often without drinking water or electricity.

Due to the fact that most of the buri box producers' husbands are agricultural labourers on very low wages, the extra income made by the women from the production of boxes is vital to their livelihoods.

Most of the members of BMPCI are women and importantly, most of the members of the Board which runs the organisation on a day to day basis are also women.

The buri palm grows locally all year and provides young green leaves which are easily replenished by the tree.

Women from BMPCI display the buri palm leaf which is used in the production of products for The Body Shop. The women carry the buri palm leaves back to their villages. The leaves are then stripped down, boiled and dyed and then the women weave strips of buri palm leaf into gift containers.

The income is vital for the individual producers, helping them to significantly improve their standard of living and, as the women work from home, they are also able to look after their families.

Finished gift bags are carried back to the main base of BMPCI where the products go through a local quality control check which are then packed and sent to The Body Shop.

There is a strong sense of empowerment of the individual and the group; decisions are taken collectively by the producers which, in turn, increases their awareness of the social and economic issues which affect them.

BMPCI plays a key role in the community and helps to fund a child care centre for over 100 children from the age of four years, all from the poorest families in the area. The centre helps the children, their parents and the wider community. It gives the children a basic education including nutrition and health care.

There are education projects for the parents plus community health, housing, family planning (in a majority Catholic country) and other social programmes for the community.

These include disaster relief for people affected by typhoons and floods, and the organisation of groups to discuss social and political issues. There is also a local grocery store which is owned by BMPCI.

Today these initiatives may be only 10% of our overall business, but we are committed to making them a growing part of our sourcing policy.

Over the last ten years, Community Trade has proved itself to be a valid proposition benefiting all involved.

The joy and self esteem suppliers gain from trading with The Body Shop far outweigh the obstacles encountered and those still to overcome.

If we lose our sense of thoughtfulness, if we lose our sense of consideration then we might just as well consider and act like any other business.

Ultimately however, Community Trade has to be more than The Body Shop. We want other companies to do this too. Imagine if every company put some of it business towards people who can benefit the most, what sort of world we would have!

Any business is dependent upon its customers, whether in Kathmandu, New York or Seoul. But what or who makes a difference to that business? Customers make the difference. They can actively choose to buy from companies that believe in what they believe in.

As Schumaker said , if you are not part of the solution, you are part of the problem. The problem is poverty and part of the solution are fair and sustainable terms of trade.

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**Theme : Doing Cooperative Business**  
- Asian Experiences and Global Oppoprtunities

## **Seminar on Food and Co-operatives**

**Moderator : Mr. Lee Shil-kwan, General Manager, NACF**

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International Cooperative Alliance (ICA)

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**Co-operatives Doing Business**  
**Around the Globe**

**Mr. Guo Yong Kang**

**Deputy Regional Director, ICA ROAP**

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International Cooperative Alliance (ICA)

National Agricultural Cooperative Federation (NACF)



# Co-operatives Doing Business Around the Globe

A presentation at the ICA Global Forum

Seoul, 29-31 October 1998

by

**Guo Yong Kang**

Deputy Regional Director

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

First of all, I would like to express my heartiest thanks the ICA Geneva Office and National Agricultural Co-operative Federation, Korea for its kindness and trust to invite me to speak at this important forum. At the same time, I bring you best wishes from my colleagues at the ICA Regional Office for Asia and the Pacific. This forum provides us with an excellent opportunity to exchange experiences and views on the extent to which Co-operatives are doing businesses around the Globe and to explore the growing potential for international Co-operative business linkages. I would like to talk about this subject from an Asian experience and perspective.

## **1. Co-operative Development in the Socio-Economic Changing Environment**

During the last few years, the Asia-Pacific Region has experienced tremendous changes in the economies towards a more liberalized market. The centralized economies have started opening up and the internal and external trade has increased. At the same time, population in the Region has been increasing continuously, especially among developing countries.

Co-operatives in Asia and Pacific Region as elsewhere in the World face formidable challenges in the wake of wider changes taking place at the global indeed at the country level. The underlying trend is towards liberalization, privatization and deregulation. The most affected sector by these changes is producers of primary agricultural products. The food markets have been subject to influence by a more systematically organised market network. Gradual withdrawal of subsidies from governments has made the producers vulnerable to an open market. On the other hand, the consumers mainly depended on a domesticated agricultural product market are subject to influences by the upcoming private sector marketing network. The result is higher prices and the inability to procure healthy and safe food to their choice. Particularly today Co-operatives in Asia are facing great new challenges- the Asia financial crisis. The dimension and extent of monetary and economic crisis not only threatens political turmoil in some countries in the Region but also has brought many difficulties to the people, especially those with middle and lower income. As the people with middle and lower income are the basis of co-operative membership, the co-operatives, whether they like it or not, have to bear also the burden and consequences of the crisis.

The economies of most the countries in Asia-Pacific Region are predominantly rural and agricultural in nature. The average farm holdings in the region being relatively small, co-operatives are regarded as an important instrument to improve the socio-economic conditions of the rural poor by reaping the benefits of economies of scale. The co-operatives in the region have expanded tremendously in last ten years. The region covers all types of co-operatives with predominance of agriculture and multipurpose co-operatives.

The co-operative sector has both strengths and weaknesses. It projects a high degree of diversity.

For example, the average membership and share capital of primary agricultural co-operatives is as high as 1,650 and US Dollars 915,000 in Japan; 1,348 and US Dollars 88,185 in Thailand; 4,946 and US Dollars 26,912 in China; 584 and US Dollars 10,276 in Malaysia; 40 and US Dollars 415 in Pakistan. The average membership and share capital is low as 40 and US Dollars 95 in Bangladesh and 405 and US Dollars 415 in Sri Lanka.

Given the above market weaknesses, combined with stark diversities of co-operatives growth pattern in the Region, we came to the understanding that strategic alliances among co-operatives must be established on good business cooperation at the national, regional and international levels.

Such vision, combined with long term strategic planning, is the only way for the survival and strengthening of co-operatives as a total system.

## **2. Concept of Co-operative Enterprise**

The concept of co-operative enterprise has been elaborated in the Statement on Co-operative Identity brought by the International Co-operative Alliance at its centennial congress in Manchester 1995. It has been defined as an enterprise which aims at integration of economic, social and cultural needs of its members through a jointly owned and democratically controlled enterprise.

Co-operative organizations being a business enterprise needs to do business together to withstand the negative effects of market economy and to adapt itself with the changes that occur continuously. A general criticism leveled against Co-operatives is that they cannot face competition in a free market because of low level their efficiency, while the core element of efficiency is competition.

There are two elements of economic efficiency:

- (a) productive efficiency which means the position and status of the enterprise to produce at minimum cost; and
- (b) allocative efficiency which means the capacity of the firm to satisfy its customers by "supplying the right goods in the right quantity and at the right price".

Incentive to achieve efficiency comes both from product market and capital market. A competitive product market needs a firm to ensure allocative efficiency with the threat that the customer may shift their preferences in favour of other enterprises.

It is obvious that neither publicly owned monopoly nor private monopoly is capable of satisfying this condition of allocative efficiency. Similarly the threat of bankruptcy or of take over that can be imposed by the market will prompt firms to maintain productive efficiency to minimize cost and earn profit. It may be emphasized that competition itself is an incentive motivates any enterprise to be efficient by innovating new strategies, new products and reaching out to new customers. Many times, too much concentration on aspirations also restricts the co-operatives to find out new customers. Such tendency is also found inhibiting the growth and diversification of co-operative enterprise. Necessary conditions, therefore, have to be created to make co-operatives more open and market oriented.

It is obvious that co-operatives are business enterprises which are user-owned and user-controlled with a highly value-oriented system in a free market economy.

The basic functions of a business enterprise are marketing and innovation and but these are not very much reflected in the operational strategies of co-operatives. Therefore, it is necessary for co-operatives to seek to expand by exploring new opportunities through new combination of its existing resources and new business strategic alliances.

### **3. Co-operation among Co-operatives**

"Co-operation among co-operatives" is the sixth principle of the Co-operative Seven principles in the ICA Co-operative Identity Statement. The basic objective of co-operation is to enable co-operatives system to articulate its organizational solidarity to achieve a competitive edge through strong bargaining power in a free market economy. Smaller co-operatives can form much stronger business infrastructure through amalgamation. They can adopt joint purchasing and joint marketing strategies without losing their own identities.

Co-operatives around the world should and can do business together. There are a number of great advantages for co-operatives to do business together:

1. Sharing universal co-operative values and principles which are highlighted in the ICA Co-operative Identity Statement;
2. Co-operatives are people-based business enterprises and are not profit-orientated business enterprises;
3. Co-operative networks within the ICA extend world-wide and cross most industry and service sectors and it is a unique network;
4. Co-operatives networks around the world offer enormous scope for development of commercial linkages and co-operatives can proactively involved in converting these networks to networks sharing commercial activities;

5. The predominance of agricultural and producers co-operatives world-wide can supply substantial volumes of product on a consistent basis in terms of supply and quality;
6. The ICA and its regional offices with valuable data information can act as catalysts to provide commercial information and to channel business opportunities among co-operatives.

When we talk about doing business together, we naturally focus on commodities trading and don't pay enough attention to other business areas. Actually there is a wide range of business areas we, co-operatives, should and can do business together:

1. Commodities trading;
2. Joint ventures in processing, finance, insurance, research, purchasing and retailing etc.;
3. Tourism industry;
4. Commercial and market information sharing;
5. Transfer technology and know-how;
6. Service industries;
7. Expertise and consultancy;
8. Education and training.

Giving the above mentioned business areas, co-operatives certainly can take advantages to establish strategic alliances at national, regional and international levels to explore great potential to enter new markets and to reach new customers.

Experience of co-operative business development in the world has given us a great deal lessons and we may take a note that as a pre-condition of successful working of joint business, the co-operatives need to acquire the skills and expertise in forming strategic alliance in the initial stages. This alliance may mature into joint business. Advantages of such alliances are:

- a. Economies of scale;
- b. Effective access to the market;
- c. Broad-based business networking;
- d. Optimization of sourcing/purchases;
- e. Advantages for improving technology, research and development; and
- f. Upgradation of technological base and management of partners entering into joint business.

When we analyze areas and advantages of co-operatives doing business together, we also certainly should analysis weakness and disadvantages of co-operatives in joint business which limit co-operatives to successfully explore great potential in international market. The factors impacting on co-operatives' capability are:

1. Some co-operatives are small and not well organized;
2. lack of management skill and qualified personnel;
3. Absence of a strong financial structure;
4. Low participation of members
5. Inexperienced in global market;
6. Lack of strong commitment on co-operative joint business; and
7. The lack of any proper structure to facilitate international trade between co-ops.

Therefore, there is an urgent need to conduct training programs for co-operative leaders and management to understand the importance of co-operative joint business and to improve management skills along with development of co-operative business around the world.

#### 4. Asian Experience on Co-operative Business Development

The history of co-operative development in the Asia-Pacific Region has clearly shown us that co-operatives can joint together to do business in competitive market and we would like share some successful experience here.

The Japanese Consumer Co-operatives is one of the largest consumer co-operative groups in the world. With more than 19 million members, a 2.7% share of Japanese retail market and a 7% share of the overall Japanese food market, the consumer co-operatives are the largest food retail group in Japan. In the year ending March 1997, the 646 co-operatives in the JCCU jointly turned over in excess of US\$ 30 billion. Currently the consumer co-operatives have imported products such as bananas, pumpkins, lemons, salmons, and bamboo with producers in the USA, Canada, Australia, New Zealand, China and the Philippines and imported from Australia alone goods with a total value of Yen 2,000 million including:

Beef	Yen	1,500 million
Produce (onions, green asparagus etc.)	Yen	25 million
Sea food (cultured tuna)	Yen	100 million
Processed food (frozen noodles, cheese, ice cream cookies, apple juice, beer and wine)	Yen	200 million
Non food (wool, pet food etc.)	Yen	50 million

According to an in-market survey conducted in 1997 of the nine largest consumer co-operatives, the rate of usage of imported products by the co-operatives is around 5 to 10% for vegetables and 10 to 20% for fruits. This compares with an overall average of 14% for vegetables and 53% for fruits in Japan. There is clearly considerable scope for both domestic and international producer co-operatives and the consumer co-operatives to further develop close business linkages.

Singapore NTUC Fair Price Co-operative is one of the largest consumer co-operatives in Asia-Pacific region and is buying most the items from various countries in Asia-Pacific region and It has a proven record and reputation for being a successful business co-operative. In 1997 it's turnover grew by 16% to S\$ 752 million and profit before contribution was S\$ 52 million, an increase of 3% over the previous year. Main commodities being imported are as under:

<b>Country</b>	<b>Commodities</b>
Australia	Tomato, Broccoli, Apples, Orange juice, Dairy products and vegetables.
USA	Apples and orange juice
China	Canned fruits
India	Mangoes
Thailand	Rice
Myanmar	Rice

Singapore NTUC Fair Price Co-operative has indicated its willingness to collaborate with producers' co-operatives to market the products in Singapore at a competitive price.

Ever since the open door and reform policy was adopted in 1978, the foreign trade of Chinese Supply and Marketing Co-operatives has developed very rapidly. Nowadays, over 1000 joint ventures have been established among co-operative enterprises as well as with the private sector. The export volume of the all China Federation of supply and Marketing Co-operatives has crossed the one billion US Dollars mark. They produce processed agricultural products, and plants are set up with technical assistance from overseas co-operatives or foreign companies. Farmers' income has risen sharply, whereas co-operative enterprises have accumulated increased profits from trading activities.

These successful experiences have told us that success of business alliance is determined by the trust and openness; clear willingness of partners to share and control management; styles and values etc. The partners must have shared objectives and an effective mechanism of resolving differences and disputes.

There are also some lessons we must learn from the past. Earlier, ICA and member organizations in Asia-Pacific region had implemented a CoopTrade project which aimed at facilitation of international trade on co-operative to co-operative basis and also from co-operative to corporate basis. But the project had achieved a very limited success. Perhaps at that time when the project operated, the co-operatives did not have enough preparedness to go for international business. Now with the implementation of economic reforms and globalisation steps, it becomes imperative for co-operatives to create a mechanism to facilitate the promotion co-operative business around the world.

## **5. The Role of ICA in Promoting Co-operative Business in the Asia-Pacific Region**

ICA ROAP conducted a Think Tank Consortium in February 1998, to review and assess the extent to which co-operative movements in Asia are impacted by the crisis as compared to their private sector competitors. It was found that co-operatives are less affected than their competitors, because co-operatives stress the prudence of savings which as a result also build reserves from surpluses gained at yearend. Reserves that are built over time and controlled by members represented a solid cushion against pressures arising from the crisis.

Building on such strength it is only logical that successful co-operatives, when taking advantage of the crisis by pooling their resources, both human and financial, among themselves first – before inviting private companies as allies – will create strength for their members and create a more sustainable business linkages. This will require commitment from leaders who have long term visions and take incremental steps in doing business that is always focused on members.

The vast potential for developing a Trade Network can be deduced from the strength of 69 ICA co-operative members in this region. Large agricultural, financial and consumer societies affiliated to the ICA have much to offer to each other, as well as co-operative organizations in other regions, through a well-defined network.

This has to be done within the realm of the newly adopted co-operative identity, with modalities and mechanisms that can only bring about "growth with equity".

Based on the recommendation adopted by the ICA Regional Assembly, ICA Regional office for Asia and the Pacific is in preparatory process to establish an International Co-operative Trade Network. The design of the project takes into account a survey and field interviews conducted in five select countries in Asia in 1997, as well as the five-year perspective plan, to ensure that a more holistic approach to the International Co-operative Trade Network is being undertaken. The Trade Network will be developed based on "Lessons learned" from past inter-co-operative trade activities, to promote fair trading and workable business deals.

I thank you once again for listening.

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30<sup>th</sup> September 1998

**ICA GLOBAL FORUM**

**October 29-30, 1998**

**Seoul, Korea**

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**Theme : Doing Cooperative Business  
Asian Experiences and Global Oppoprunities**

## **Seminar on Capital Requirements for Financial Co-ops**

**Moderator : Mr. Tan Kin Lian, Chief Executive, NTUC Income**

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**International Cooperative Alliance (ICA)  
National Agricultural Cooperative Federation (NACF)**



**ICA GLOBAL FORUM**

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**Theme : Doing Cooperative Business**  
**- Asian Experiences and Global Oppoprtunities**

**Potential Strength of Capital Co-operation**  
**- the ICMIF Example**

**Mr. Hans Dahlberg**  
CEO, ICMIF

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International Cooperative Alliance (ICA)  
National Agricultural Cooperative Federation (NACF)

## OPENING REMARKS

- **Thank you** Mr Chairman.
- I would like to express my **appreciation** to the organizers of this Global Forum.
  - ❑ Not just because it is very **well arranged** but also
  - ❑ because it is a **most timely event**.
- Our co-operative sector is facing strong competitive forces and we must see this as an important **opportunity to position ourselves** rather than a threat.
- In today's economic turmoil, when the capitalistic forces are coming under sever preasure we have an **important MESSAGE** to convey:

*business operated according to co-operative and mutual principles is a most viable option. Co-operatives and mutual operation have only one objective and that is to serve its members – they being producers or consumers. And they can do it well.*

- My subject relates to **capital requirements** for financial co-operatives and I will give you several illustration of most **successful international collaboration** in the field of co-operative and mutual insurance.

### 1. POSITION OF INSURANCE COOP AND MUTUALS

First, let us look at the ICMIF membership. How it is spread around the globe and their position.

- 105 insurers in 67 countries are members of ICMIF. We have members on all continents except Australia.
- Our members vary in **size**.
  - ❑ Some being huge as **Zenkyoren** of Japan which is the third largest insurer in the world. Zenkyorens annual premium income corresponds to 10% of the GDP of my country, Sweden.
  - ❑ Our host organization **NACF** which also runs an insurance operation has had a tremendous growth during the last 20 years and belongs to the top ten of our membership.
  - ❑ Many newly started insurance organizations primarily in **Latin America** are of course small.
- A **characteristic** for ICMIF members is that generally they are **confined to their national domestic market**, they are based on peoples' organizations as agricultural cooperatives, consumer cooperatives, credit unions, trade unions or groups of professions as teachers, government employees, small businessmen and the like .
- In many cases they have a **strong position in their national markets** and they have all started from a **small beginning**.

*Taken together ICMIF members represent approximately 5.8% of the world premium income.*

- The ICMIF members have organized themselves into **four regional associations**, one for Asia and Oceania, one for the Americas, one for Europe and finally one for Africa.

- As my topic will deal with **principles, problems and practices** that are **general for all ICMIF members**, I will not in my presentation deal specifically with the Asian members. They are part of the same globalization process happening elsewhere.

## 2. CAPITAL REQUIREMENTS

### *Why is there a need for more capital?*

You have already heard the case of the co-operative banks.

- The basic **REASON** is increased **competition**. Everywhere, general market conditions are becoming more and more liberalized, also in insurance.
- For **EXAMPLE**, the **Japanese** insurance industry is preparing itself with full speed. The Big Bang in Japan is set for the year 2001 but has already had effects. In a market with less restrictions, insurers will offer wider and more extensive – or riskier – coverages as they will be allowed by fully liberalized tariffs to do so.
- When we look at markets that have been liberalized for a long time – with a strong competition – the **United States** for **EXAMPLE** - winding-up of insurance companies or restructuring of them can be seen relatively frequently, as a consequence of a high loss ratio and inadequacy of technical provisions.
- As a **CONSEQUENCE** of this **liberalization** process,
  - ❑ governments almost everywhere are now imposing **legal requirements** for increased capital and solvency ratios.
  - ❑ The World Bank and International Monetary Fund/IMF are also in their discussions with governments strongly recommending **capital increases** for insurance operations.
  - ❑ Another consequence of the liberalization process is that several of our larger members are seeking to find ways to **increase their capital base**. The primary reason is that they wish to **expand their business** operations both at **home** and in some cases also **abroad**.

## 3. DILEMA FOR COOPERATIVE SECTOR

- Co-operative and mutual insurance companies have specific **DIFFICULTIES** in order to meet the capital needs demanded by their growth or legal requirements.
  - ❑ They **cannot** make use of the instruments available for a company having **access** to the classical capital market, for example the **stock exchange**.
  - ❑ In many cases the reinvestment of profits is hindered by **tax charge**.
  - ❑ Even if they have statutory or legal means to obtain contribution from their members – or even from the market – the **ambiguous nature** of the securities issued and the **dimension** itself of the number of members in a co-operative and mutual insurer make these possibilities hardly effective.
- Of course, a **small** co-operative and mutual insurance company can approach its members, or request new policyholders to provide portions of capital.

- That is not feasible for a **large** co-operative or mutual company, especially if the members are private individuals and if, as usually is the case, the member and the policyholder is one and the same person.

I can continue to expand on the technical side of the problem but let me just state that:

***capital requirements are a problem  
and that we in the ICMIF are concerned.***

Here are a few **PRACTICAL EXAMPLES** of what our members are faced with.

**3.1** For two of our **smaller members** in **Peru** and **Kenya** the consequences of increased legal capital requirements had serious repercussions.

**3.1.1** *In Peru our member **SegurosPeru** was not able to raise the minimum capital to continue business as before.*

- A new company with a much limited span of activities had to be formed.
- This curtailed company – **ServiPeru** - will serve as an agent/broker to a local insurance company which has taken over the insurance operations.
- In spite of interventions directly to the Peruvian government also from the UK, Japan and the ICMIF secretariat it was **not** possible to obtain an **exemption** and let SegurosPeru continue as usual.

**3.1.2** *In Kenya our member **Co-operative Insurance Services /CIS** faced a similar capital requirement.*

- As this company was a model company for the rest of Africa, ICMIF and several of its members decided to come forward with a **rescue package**.
- In close consultation with CIS Kenya, its management and board, we raised **1.5 million USD** to its share capital on a short term basis.
- With this additional capital CIS Kenya was able to get its **license renewed** and continue to provide insurance services.
- We also provided a **management consultancy** who for three years has been on a daily contact with the company.
- The problems are not solved especially as the **terrorist attack** caused serious damage to lives and property of the Kenyan Co-operative Movement.

**3.2** *Let me now give you an example from a **middle-sized member** –namely **Malaysian Co-operative Insurance Society Limited** – known as **MCIS**.*

- Uptil **1988** the share capital was **USD 600,00**.
- In **1989** the Central Bank imposed new capital requirements. MCIS was required to have a minimum paid up capital of **USD 8 million**.
- The MCIS case illustrates very well what some of our well established members are faced with.
  - ❑ MCIS management approached **existing share holders** requesting them to increase their capital. The response from the co-operative movement met with very **little response**.

- ❑ Then the management turned to the **life policyholders** and succeeded to obtain the capital needed.
- ❑ The share capital issue did not end at this point. There are **new statutory requirements** under which MCIS must increase its capital further to **USD 40 million** by 1998.
- Some legislative changes were brought into effect, and from **1<sup>st</sup> January 1998**, insurance business can only be undertaken by a public limited company. This means that **MCIS cannot operate insurance business as a co-operative**.
- This requirement brought the future of the co-operative into question. It was decided to transfer the insurance business to a **new wholly owned subsidiary company**.
- In this connection the MCIS board also considered to in this new insurance subsidiary on a priority basis to policyholder members and co-operative societies.
- In order to meet the challenges of globalization, it also proposed that part of the shares be offered to a **foreign insurer**. The offer of shares could also be made to the public to satisfy the listing requirements of the Kuala Lumpur stock exchange.

**The big question is how to the co-operative can retain control over the insurance operations after the company goes public.**

- The board **PROPOSAL** was to have the majority ownership of the insurance subsidiary through a **co-operative holding**.
- The board was anxious to do everything possible to ensure that **ownership control was not lost from the co-operative** movement and so far they have succeeded. The capital raising was a **big success** with an oversubscription as a result.

### 3.3 *To transfer the insurance operations to a separate new entity has been practised in other cases as well.*

- In 1992 our ICMIF member **Wiener Städtische Mutual** transferred its insurance operations including assets, liabilities and policies in force to the newly established **Wiener Städtische Joint-Stock company**.
- To adequately express its new function as a holding company the name of the mutual was **changed to Wiener Städtische Mutual Insurance-Asset Management Company**. An insurance policy bought from the insurance joint-stock company also certifies membership in the mutual society.
- With this construction the joint-stock company is in a position to exploit all business opportunities and legal advantages which this legal form offers.

**Today Austria's largest bank has a 10% ownership of the insurance operations.**

- Considering all the **BENEFITS** offered by the new corporate structure:
  - ❑ easy access to the capital market,
  - ❑ openness for strategic partnerships,
  - ❑ safeguarding of the democratic control

... the management feels that the Wiener Städtische is better equipped to successfully live up to the mutual principles than it was possible prior to the reorganization.

- We have thus examples that show how **it is possible for co-operative or mutual insurers to meet its capital needs without losing its identity.**
- I strongly believe it is our **DUTY** in the international movement to show ways and spread awareness about these examples and how it can be done.

***In many cases there are solutions.***

I would like to use the rest of the time allotted to me to point out

- the need for **increased collaboration** and
- how such collaboration can **benefit** members in an era of globalization.

#### **4. INCREASE COLLABORATION / COOPERATION A NECESSITY**

- The worldwide economic integration and growing multinational markets forces our members to adopt **new ways of thinking and working.**
- Our heritage in the co-operative insurance movement provides a good model for how to compete successfully.

***With increased collaboration we can meet these challenges.***

##### **4.1 One challenge is that *markets are already saturated.***

- There are a number of players already serving our markets and the markets themselves are **not growing very fast.**
- Our members are also finding that their **traditional customer base is shrinking.**
- Many co-operatives and mutuals have historically had a strong presence in rural areas, trade unions and credit unions.
- In many countries the number of people within these groups is declining.
- In order to grow, insurers must learn how to **attract other customers**, whose insurance requirements either for products or services may be different.

**4.2** I have earlier mentioned the change in legislation with regard to capital. Another change is that other types of companies like ***banks are now allowed to enter the insurance arena.*** This is also making it more challenging for existing players as they have to adopt to new ways of competing.

**4.3** The ***entrance of foreign insurers*** as well as the increasing mergers and acquisitions, is making it more difficult for smaller companies to compete.

- All these challenges and problems were seen in the end of the 1980's and a special **Strategic Review Group** under the dynamic leadership of our moderator today mr Tan Kin Lian came forward with a number of recommendations.
- Without elaborating on them let me just say that the report which was presented to our conference in 1992 in Tokyo was indeed farsighted and has led to a number of interesting and successful developments how the ICMIF members could benefit by working more closely.

***Our slogan is "A global Reach for Local Strength".***

- Here I would like to remind you of the **6th ICA principle**:

***Co-operation among co-operatives,***

which states that Co-operatives serve their members most effectively and strengthen the co-operative movement by **working together** through local, national, regional, and international structures.

- Let me quote what **Dr. Ian MacPherson** wrote in his report on Co-operative principles for the 21<sup>st</sup> century.

***Co-operatives around the world must recognize more frequently the possibilities of more joint business ventures. They must enter them in a practical manner, carefully protecting the interest of members as they enhance them. They must consider, much more often than they have done in the past, the possibilities of international joint activities. In fact as nation states lose their capacity to control the international economy, co-operatives have a unique opportunity to protect and expand the direct interests of ordinary people.***

## **5. EXAMPLES OF COLLABORATION**

### **5.1 Reinsurance exchange**

- First of all I would like to mention the reinsurance activities which have played a **very important role** in knitting our members together.
- **All insurers** need to reinsure themselves against catastrophies and extraordinary large claims that may jeopardize their existence.
- **Lloyds of London** is a market place for reinsurance business and exchanges. And I am sure many of you have heard about the Lloyd's of London.
- However, many of our members place their reinsurance with other members. ICMIF has a special unit serving our members in this respect.

***More than 65 member companies in 37 countries make use of this service.***

- The services we offer have taken great strides forward over the past two years. Current market conditions are ideal for our members to strengthen their businesses by using the reinsurance service we provide.
- **In 1996** we set up a new company, **Reinsurance Services Limited**, that can assist in placing business on the open market and extends our operation beyond the limits of our own membership for the first time.
- In addition to the exchange of reinsurance we have introduced innovations in **TRAINING** which have been enthusiastically received.

- Two years ago we inaugurated a **new computer-based simulation**.
- It was developed by our reinsurance experts at ICMIF with the help of a UK-based training company. The simulation was a **big success**.
- It has brought our members closer together and **reinforced networking**.
- It also provided an **excellent training tool**. Several members have asked us to run the training programme for them at local level.
- This year we introduced yet another a computer based simulation which aims at improving managers' ability to make **good decisions** for better business results.
  - Like the first business simulation, this training is available to members **at cost**.
  - Several members, even the largest ones, have signed up to have their management teams to use our computer-based tools.
  - And we also run **training sessions** on a regional and international basis with representatives from many ICMIF members participating at the same time.
- I have more examples in the reinsurance area but I think these are enough to make the point that **thanks to reinsurance** – an actual business exchange – we have been able to develop **strong networks on an international basis**.
- This means that we have frequent contacts with one another not only individually but also company wise.

## 5.2 Capital participation in other ICMIF members

- As our members re-engineer their business processes to remain competitive, and as they search for investments in other companies in order to grow, **capital is a necessity**.
- If they invest in **new distribution channels**, capital is needed; and certainly **technology investments** require major capital outlays. We talked about this a while ago and I also mentioned **regulatory changes**.
- One **ADVANTAGE** we have in ICMIF is,

*that as we know each other fairly well, it is possible for one member of ICMIF to approach another member when there is need of capital.*

- We have **EXAMPLES** where there is a **mutual crossinvestment** in the base capital.
- The **Co-operators** of Canada is one such example and **Unipol** of Italy another.
- When **The Co-operators** presented their plans for the membership 3 years ago they received a **very positive reponse**.
- Several ICMIF members came forward with capital and **8 million dollars** were invested on pure business conditions with a good return.

*Without the ICMIF networks this would have been much more difficult.*



### 5.3 Join projects

As an illustration of ICMIF partnerships let me give you some **EXAMPLES** of cross-border alliances.

#### 5.3.1 The first one relates to SCANDINAVIA

- In the **mid 1980's** the three Scandinavian members in Denmark, Norway and Sweden formed a **strategic alliance**.
- All the three companies have their roots in the trade unions and the consumer co-operatives – they have **similar structures, policyholder groups and products**.
- The alliance which was cemented through cross-ownership among the three has resulted in **sharing of resources** and the development of **joint services and products in various fields**.

#### 5.3.2 The second example is a pan-European alliance, called EURESA

- Euresa goes a bit further in its efforts than the Scandinavian partnership.
- First of all Euresa was established as a separate European structure – a **holding and an economic interest group** – jointly owned by four European members in **Belgium, France, Italy and Sweden**.
- Euresa started operations in **1992**. Like the Scandinavian alliance, one Euresa **OBJECTIVE** is the **sharing of know-how and resources and development of joint products and services**.
- But Euresa also aims at establishing joint European tools for the partners – one example is a life insurance company selling their products in Europe – **Euresa Life**.
- Thirdly, Euresa aims at supporting **joint ventures** in the field of financial services initiated by so called social economy organisations throughout Europe.
  - ❑ Such ventures have been established in **Greece, Poland and Portugal**.
- The original Euresa group has gradually been extended and currently stands at 7 partners – the new partners are another **French, a German and a Danish**.

#### 5.3.3 The third example is a bilateral business venture – the KOOPERATIVA GROUP in the Czech and Slovak Republics

- Kooperativa was established in the **early 1990's** by the co-operative movement in the former Czechoslovakia.
- In order to realise the venture, they **needed capital and management support**.
- **Wiener Städtische** of Austria came to the help and a business deal was signed.

*Kooperativa is today one of the market leaders in both the Czech and Slovak Republics*

#### 5.3.4 The fourth example is also bilateral and relates to LATIN AMERICA.

- **La Equidad** of Colombia, a progressive insurer and a dynamic part of the co-operative movement in its country has established **bilateral ventures** with ICMIF members in Costa Rica and Ecuador.
- The major **REASON** is that by pooling resources all players can strengthen their positions.

- In the case of **Costa Rica** a government insurance monopoly existed until recently. The only exception to the monopoly was the **teachers' mutual**.
  - ❑ This mutual has now set up a **new company** with 50% part ownership by La Equidad in Colombia.
  - ❑ Besides the capital participation the new company get access to a friendly cooperative with **advanced commercial experiences**.
- In the case of **Ecuador** our member there needed **more capital and financial resources** and La Equidad was in a position to assist.

#### 5.4 ICMIF Series of Mutual Funds

- Finally I would like to share with you another interesting development which has been going on for some years but where a few weeks ago a concrete proposal for **cross-investment in mutual funds** has been given the green signal.
- The process to reach to this proposal has been a lengthy one. The Strategic Review Group which I referred to earlier identified **capital issues** as one of the **key functions** that ICMIF needed to address on behalf of its members.
  - ❑ One of the issues studied was a **PROPOSAL** for a **mutual capital fund** that meet members' capital needs as well as providing investment returns.
- Here you can see the **chronological development** of this process.
  - ❑ The **final proposal** is not at all similar to the one we discussed several years ago.
  - ❑ The major **REASON** being that it was necessary to have the **blessing of the investment managers** who are responsible for the asset allocation of policyholders' funds.
  - ❑ The task group this summer came up with the proposal which our Board of Directors have **accepted**.

#### **(EXPLAIN IRF = The International Reserve Fund**

- Was a **proposal** for a type of Special Drawing Right SDR – mechanism..
- Members would make **pledges** according to a set of rules.
- These pledges could then be drawn upon when a developing member was in need of capital and could meet certain laid down criteria. The proposal has been **shelved**.)

#### The overall AIM is to establish an investment platform that:

- **Facilitates** cross-investment in members' own funds by other ICMF-members
- **Encourages** cross-investments thus stimulating member relations
- **Provides** easy and inexpensive access to global investment opportunities
- Let me here state that **global financial houses** realize that, in order to provide good returns on funds, they need to have a **physical presence** in each market they represent and set up offices in key financial centres worldwide.

- The **ALTERNATIVE** is to contract the investment advice from local firms.
- These options requires a **significant cost outlay**.
- **ICMIF** already has this **network of fund managers** in place. And by tapping into members own markets an ICMIF fund project can obtain access to specialist knowledge in local markets.
- ❑ Members wishing to participate fall into **two groups**:
  1. Members **offering** investment funds for other members to invest in.
  2. Members **investing** in those funds

#### **EXPLANATION**

- Members can opt for participation
  - ❑ as investors only = Group 2 or
  - ❑ as investors and fund managers = Groups 1 and 2.
  - ❑ This has the **BENEFIT** of allowing smaller members to participate as investors.
- Members wishing to offer their own mutual funds for other members to invest in, do so through a **centralized administration** information centre and data base at the ICMIF secretariat especially designed for the ICMIF Series of Mutual Funds.
- Data will be collected from members about their funds in order to provide an **online central information source** for potential investees and investors.
- Those members wishing to invest in the funds can select those funds of interest to them and **deal directly** with the fund manager.
- The annual meeting of the **ICMIF Investment Network**, which is already attracting 26 delegates, will be utilized as a **forum** for investment managers and participants to discuss funds and performance and make presentations about new funds.
- A **steering committee** will supervise the activities of the ICMIF secretariat. he steering committee will be **responsible** for:
  - ❑ The number of funds,
  - ❑ administering the rules,
  - ❑ providing general reporting guidelines and
  - ❑ further developing a structure.
- There is **no comparable fund** that utilizes the common principles of mutual and co-operative fund managers.
- Another **important point** is that
  - ❑ members on an average invest **less than 10%** of their invested assets in other countries and even then,
  - ❑ these foreign investments are predominantly in **nearby countries**, whose bourses are often linked with their own.

*A global project allows managers to achieve greater risk diversification.*

- As I said – this proposal has been **accepted by our board**.
- **5 ICMIF members** have already committed themselves to participate.
- And we haven't yet actively started to make this known.

#### **5.5 Proposed ICA Mutual Capital Fund (ICMIF/ICBA)**

- I would like to conclude by informing about an **APPEAL** I have made.
- In ICMIF we have now taken a step in the **right direction**.
- We must however **look further**.
- What measures can we take in **strengthening** weak co-operative members and markets?
- There are **substantial resources and strengths** in the co-operative movement worldwide.

#### **LIST OF ASSETS**

- Here we can see **substantial strength**.
- However, ICMIF has **many weak members**.
- In many cases they reflect the **weakness of their sponsoring** co-operative organizations in their own countries.
- **Unless their parent co-operatives improve, they have little chance of making it.**

*And this is one MAJOR REASON why it is important to work within the ICA framework and help improve co-operative markets.*

- The weak co-operative markets have the same needs as the weak ICMIF members namely
  - Capital
  - Professional technical assistance
- A **PROPOSED INITIAL STEP** might be to **work with** the ICA specialized organizations, especially **the ICA banking sector** to set up a broader, overall mutual capital reserve fund for the global co-operative movement.
  - ❑ The fund could combine **capital and technical assistance** on business terms for weaker co-operative markets, while providing an optimum return to investors on global holdings.
  - ❑ Such a concrete measure could lead to additional avenues of **collaboration and integration within the ICA family**.

**Thank you**

**ICA GLOBAL FORUM**

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**Theme : Doing Cooperative Business**  
**- Asian Experiences and Global Opportunities**

## **Financial Co-ops Going Abroad**

**Mr. Claude Beland**

**President, Mouvement des caisses Desjardins**

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International Cooperative Alliance (ICA)

National Agricultural Cooperative Federation (NACF)

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Ladies and gentlemen,

I'm very pleased to be here with you to discuss a subject that is very important for today's cooperatives -- the capital that financial cooperatives throughout the world must now maintain so they can be recognized.

It's still possible for the cooperatives emerging in certain countries to carry out savings and loans operations and come to the aid of a few members without capitalization becoming a real problem. But these are very small businesses with limited means and, in these conditions, with very limited potential for development. When membership grows and members' needs increase, financial cooperatives are inevitably subjected to strict regulations regarding capitalization.

The rapid development of communications and data transmission technology has created a new world where the continents are sliding closer. But with the globalization of trade and markets, we are also witnessing the standardization of the rules, regulations and legislation that provide the framework for business practices. This is especially true in the financial world.

Once financial cooperatives reach a certain size today, they are confronted with new regulations imposed by legislation in practically every part of the world. The regulations that cause the most problems are those concerning the capital financial institutions must have to guarantee stability and solvency.

New requirements are being introduced so rapidly in several places in the world that financial cooperatives have been caught unprepared, which has led to the weakening or disintegration of the cooperative movement. This was the case recently in America, in Panama, Columbia and Argentina, and in Europe, particularly in Belgium and Switzerland.

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Elsewhere, we see cooperative banks modifying their legal and financial structures to the extent that it has become difficult to reconcile their new structures with cooperatism. Certain cooperatives have to move fast to deal with the competition from share-capital businesses or to comply with new legislation. Isolated in their country or region, unable to rely on partnerships with organizations that share cooperative values, these co-ops face an impossible dilemma: either disappear entirely as a cooperative and a financial institution, or disappear as a cooperative and turn into a share-capital business.

We must address this problem of capitalization and do it now. We can do it on three levels :

1. On the level of the local caisse.
2. Through the network of caisses on the regional and national level.
3. And, possibly, at the international solidarity level.

Let's review each of these three points. To illustrate, I'll give you an example of what we've done at the Mouvement des caisses Desjardins, which I'm representing here. First, I want to explain that the Mouvement Desjardins is a network of 1,275 caisses in Quebec, one of the provinces of Canada. The caisses Desjardins has five million members, and as the caisses also own a network of complementary businesses for life and general insurance, trust services and stockbroking, assets total more than CAN\$72 billion.

#### On the level of the local caisse

We all know that the main source of capitalization for caisses at the local level is the general reserve. The only source for the general reserve is the caisse's surplus earnings, which means the local caisses must be profitable and well managed.

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Three years ago, in order to further improve the balance sheets of local caisses, we undertook a vast program to reengineer management procedures at Desjardins. Our main objectives are:

- a) To reduce operating costs for the caisses which were too high compared to the competition. This led to automating all basic banking services through a vast network of banking machines, with terminals in retail outlets, and by making telephone and Internet banking transactions possible.
- b) We also aim to adapt the caisses to the new competitive environment that now requires greater competence from our employees. Seven percent of our annual payroll is allocated to employee training. We are also introducing a new range of products that include mutual funds, financial planning services, and so on.
- c) We also bring together expertise by setting up specialized business service centres that target mainly small- and medium-sized businesses.
- d) And we aim at making sure each individual caisse has at least five percent in the general reserve, in addition to paying out patronage allocations at the end of each year. We consider this patronage allocation an important way to demonstrate that we're not like other financial institutions. Last year, nearly half our caisses paid their members patronage allocations totalling \$78 million.

To increase the capitalization of our local caisses, we've also "invented" what we call "permanent shares". These shares are a new instrument for capitalization that caisses can issue. Members buy these shares, agreeing to leave them in the caisse until the member retires or dies (permanence is necessary for these member deposits to be considered capital). The caisse is morally bound to give members a return slightly higher than a traditional term deposit.

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The success of issuing permanent shares (the outstanding balance was nearly \$700 million at December 31, 1997) shows that it's possible to persuade caisse members to invest in the capitalization of their cooperative to ensure its development, as long as we offer an appropriate financial instrument.

### **The regional and national solidarity level**

We can also ensure the capitalization of caisses in the same region or country through solidarity with the capitalization of their network of caisses. In other words, we can make them jointly responsible for the capitalization, profitability and solvency of each other.

At Desjardins, the caisses joined together to offer guarantees, not only locally but regionally, and on two very important levels: liquidity and solvency.

1. To secure adequate liquid assets, the caisses set up Caisse centrale Desjardins. They combined part of their liquid assets in this central Caisse, one of whose roles is to oversee providing funds to the caisses through financing in different markets, including international ones. To this end, the central Caisse can issue commercial paper, debentures or any other type of financing recognized in the markets.
2. To guarantee solvency, the caisses also set up a Security Fund corporation. Each caisse pays dues to this corporation annually and the accumulated funds serve to make up for any losses at a caisse that would leave it undercapitalized.

What's more, at Desjardins, the caisses offer a "network guarantee" for capitalization. In other words, the network of each regional grouping of caisses — a federation — offers the cumulated general reserves of all those caisses as a guarantee of solvency. So if the majority of caisses respect the capitalization standards while some do not, they would be covered. This collective approach

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allows more flexible development planning within the network of caisses and the optimal use of the capital available. In Quebec, as elsewhere, some caisses will operate in areas where opportunities for economic development are limited while others are in areas where opportunities abound.

Together, caisses can now call upon the capital market. When the Mouvement Desjardins decided to solicit institutional investors for its capitalization, the challenge was to satisfy the requirements of the financial markets while respecting the cooperative principles about the ownership and control of our institutions. Without sacrificing our autonomy, the caisses still had to be credible on the markets if investors were to accept to purchase the securities we offered them. That's why we created a new company, called Capital Desjardins, that brings a network guarantee to our commitments and whose role is to be the bridge between each caisse and the institutional and international markets. The initial public offering of US\$200 million in subordinated debentures sold out within hours on the U.S. market.

Today, thanks to the different instruments developed over time, Desjardins is highly capitalized. In fact, our capitalization is higher than the major Canadian share-capital banks and higher than required under current international regulations.

This capitalization comes from the following sources:

- Qualifying shares from members: \$53 million (1% of the total)
  - Permanent shares: \$696 million (13%)
  - Minority interests: \$537 million (10%)
  - Subordinated debentures: \$410 million (8%)
  - Reserves and surplus earnings: \$3.6 billion (68%).
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### The international solidarity level

It's obvious that, today, financial cooperatives don't have a hope of major development if they remain isolated locally. The financial cooperatives that have had the greatest success to date are those that have understood the benefits of regional and national solidarity. There are numerous examples of this, and the Mouvement des caisses Desjardins is just one.

But the rules of the game are changing. We now live in one world. This globalization of markets has led many businesses to consolidate. The consolidation of large financial institutions has created giants.

Cooperatives today are faced with a number of challenges in their search for adequate financing. Cooperatives are being financed through revolving equity that is by definition unstable and illiquid for members. In the future, financial markets will be more open and competitive.

There are some options for cooperatives. Besides the existing range of securities, other forms of financing, such as strategic alliances, should be added to the mix.

Yes, I believe the time has come for international solidarity. But local cooperatives that are healthy and regional organizations that perform well and support each other will always be the prerequisite to greater interdependence.

At Desjardins, we are watching with great interest the evolution of relations between financial cooperatives on the international level. Indeed, the Mouvement Desjardins has been maintaining ongoing institutional relations with cooperative banks throughout the world for many years. Desjardins is actively involved in a range of activities through several large international associations, such as the International Co-operative Alliance (ICA), the International Cooperative Banking Association (ICBA), the International Confederation of Popular Credit (ICPC), the International

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Raiffeisen Union (IRU), and so on. In the last decade, these long-standing relations have resulted in a few bilateral cooperative agreements. But when it comes to building business partnerships or alliances that can counterbalance the huge alliances our capitalist counterparts are currently negotiating, there's much left to do. Talks are underway at the ICBA level, but concrete results are yet to come.

Desjardins is currently a regional institution and its territorial expansion must first extend certain activities *ad mari usque ad mare* as the Canadian motto says — from sea to sea — within our country. There are caisses populaires affiliated with the Mouvement Desjardins in three of Quebec's neighboring provinces. But there's also a network of Credit Unions — cooperative institutions like us that share the same philosophy — throughout all the Canadian provinces other than Quebec. Creating new savings and loan cooperatives in territory that's already covered is out of the question. But one possibility we foresee, is for us and Canadian cousins to create common instruments.

We also believe that, in the not too distant future, financial cooperatives will have to consider building larger international alliances.

At this point in time, in addition to the international services we offer business members, the Mouvement Desjardins is active beyond Canadian borders mainly on the level of technical cooperation. Since 1970, we have had a subsidiary called Développement international Desjardins (DID) whose objective is to help people in developing countries create cooperative savings and loan networks.

Today, DID is active in more than 25 countries. Worldwide, it's one of the major companies associated with the development of cooperative businesses and cooperative financial networks. Certainly, DID expertise can contribute to establishing the international solidarity that appears to be so essential to the future development of financial cooperatives.

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DID has just developed an investment fund with the purpose of getting involved with our partners at a later stage of development. This fund is designed to complement our diverse technical cooperation missions. On a very modest scale given the \$10 million in start-up capital, it will allow us to invest in projects in developing countries, particularly with partners who have matured, whose growth requires new capital, and to respond to the demand of certain partners who want Desjardins not only to share expertise but also invite our financial involvement in their development.

This fund will be financed by different component organizations in the Mouvement Desjardins and closely related institutions. We want to create leverage and hope that the contribution of external partners will allow 20 million, 30 million or even 40 million dollars to be directed toward emerging or developing cooperative systems in the world.

### Conclusion

On the international level, the Mouvement Desjardins will continue to act through technical cooperation, as our new tools demonstrate. As globalization now appears to be an irreversible trend, and business people are looking at and getting involved in foreign markets, our international services will no doubt grow more.

But we are concerned about the creation all around us of capitalist mega-banks, ever more powerful financially and technologically. We're not panicking, but once again in our history we must look long and hard at the situation and provide ourselves with the means to continue to pursue our mission and serve our members, even as the situation gets tougher.

For this, I am convinced that alliances are essential and that financial cooperatives -- if they care about their status and strength -- must stick together more than ever. The Mouvement Desjardins is prepared to study any project with potential partners that could be mutually advantageous.

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Cooperation is based on solidarity -- the uniting of strengths. In an era of globalization, I believe cooperators must get involved in the globalization of solidarity.

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