

**DEVELOPMENT OF
CONSUMER COOPERATIVE MOVEMENT
IN SRI LANKA**

Workshop Report



International Co-operative Alliance
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CONSUMER COOPERATIVE MOVEMENT
IN SRI LANKA**

Development of Consumer Co-operative Movement In Sri Lanka

Report of the
NCC/ICA National Workshop
Held at Colombo, Sri Lanka
26-29 April, 1989



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Acronyms

ACCD	Assistant Commissioner of Cooperative Development
ICA ROA	International Co-operative Alliance Regional Office for Asia
MPCS	Multi-purpose Cooperative Society
NCC	National Co-operative Council of Sri Lanka
RCS	Registrar of Cooperative Societies (under the Provincial Councils)
CCD	Commissioner of Cooperative Development
CEC	Cooperative Employees' Commission
MARKFED	Cooperative Marketing Federation of Sri Lanka
SLICM	Sri Lanka Institute of Cooperative Management
CWE	Cooperative Wholesale Establishment

Foreword

The International Co-operative Alliance - Regional Office for Asia and the Pacific has undertaken country-specific and need-based activities during the recent past in many of its projects. The Consumer Cooperative Development project undertook an assessment of the regional situation at a recent workshop held in December, 1988 in Kuala Lumpur, Malaysia. Subsequently, many developing countries, including Bangladesh and Philippines were made priority in terms of needs expressed, to strengthen the existing consumer cooperative movements. These two countries as well as Sri Lanka did not have a national level organisation for consumer cooperatives. Therefore, the national workshops held and the studies undertaken in the case of Philippines have highlighted the need for such an organisation.

The national workshop held in Sri Lanka has highlighted important issues for future. It is worthwhile to mention here that Sri Lanka has already been able to establish a national level consumer cooperative federation, in order to improve the situation in consumer cooperatives, which has been a major recommendation. The report also highlights many other legal and organisational issues, in addition to the policy issues. I have no doubt that the leaders in the co-operative movement of Sri Lanka would be able to pursue their efforts to achieve an ideal consumer co-operative movement for the country.

I am also happy to note that the report would not only serve as a readable document but also as a working document for future action.

New Delhi,
February 26, 1990.

G.K.Sharma
Regional Director for Asia and the Pacific

I

**Conclusions
and
Recommendations**

Chapter I

Conclusions and Recommendations

01. Principles for/and structures of the Consumer Cooperatives

1.01 A national level consumer business organisation should be formed for the current consumer co-operative societies (MPCSs). This Apex level organization should take necessary steps to import and export goods for its member societies and in addition, it should engage in processing and distribution of goods and provision of advisory services. Purchasing of local produce and marketing should also be one of its roles.

1.02 Provincial and district level consumer cooperative organizations be formed where economic viability is possible.

1.03 A committee be established for the provision of advisory services and coordination for the above business and consumer organizations.

1.04 Economic viability of area of operations of the present multi-purpose cooperative societies and the branches should be reviewed, and re-demarcated where necessary and relevant rules and regulations be revised for the purpose.

1.05 In order to give more powers to the branch committees in regard to business activities, bye-law provisions should be amended.

1.06 Special committees or development officers should be appointed within the Board of Directors and the staff to operate the business activities with more and more attention, in regard to

various zones in the area of operation of a large multi-purpose cooperative society.

1.07 The roles of the Board of Directors as well as the other executives including all officials to be clearly demarcated and clear powers and responsibilities be transferred/ assigned to them. Guidance from relevant institutions be provided where it is necessary.

1.08 The limitations in the Co-operative Law pertaining to the purchasing and selling should only be continued to the fixed assets such as lands, building, vehicles, machinery, etc.

1.09 The Presidents of the consumer societies to be elected by the general body.

1.10 It is emphasized that a proper role should be given to the Cooperative in the preparation and implementation of Government policies and development plans.

1.11 Even though assistance from the government is necessary the Principles and the rules and the regulations should be framed so that they do not put obstacles in the way of societies business operations.

The present procedure and the circulars be reviewed and framed to suit the current open economy of the country.

i. Example 1 The responsibility for investigating fraud, corruption and irregularities be transferred to societies' officials. An absolute right to decide the pricing of goods be transferred to societies.

ii. Relevant measures should be taken in accordance with the co-operative principles to avoid the prevailing business competition between the co-operatives.

Example for solution: Co-ordination committees.

1.12 The law should allow societies to engage in formal business with non-members and non-sub-agents too.

1.13 The present organizational structure be rectified formally and a communication system be developed in order to have close

relations between the members and the society. The structure should be integrated at district, provincial and national levels.

02. Business Management

2.01 An incentive system for managers/staff be implemented in branches (Pradeshikas) based on the cash business (sales). A discussion on an agreement with the government organizations which supply essential goods is emphasized on the above incentive system.

2.02 Trade policies be prepared in order to reflect the number and the consumer needs in the budgeting estimates and estimates be prepared on the basis of branches taking into account the turnover of the area and approval of the general body should be obtained and subsequently implemented.

2.03 Taking into consideration present business strategies and the modern technology, supply of wrapped or packeted goods is suggested and the necessary service be rendered according to the wishes of the consumers for self-service and mobile services.

2.04 The legal constraints in regard to repairs to the private buildings where there are shops, should be removed. The same buildings and the equipments to be cleared on "shramadana" basis (voluntary service) at least once in a year. For this purpose branch committees are to be encouraged.

2.05 A proper publicity method should be adopted to propagate the chances and budget of special prices and the quality of goods that the co-operatives are selling.

2.06 It is necessary to make the already introduced purchasing management system compulsory. Arrangements are to be made to implement this system by convening meetings of the present sub-committee at least once a month. A national level committee should function to oversee the introduction and implementation of this management process.

2.07 To avoid the leakage and wastage of goods in societies, efficiency be assured by way of a proper stock-taking system, a surprise stock control method, stock management system and systematic transferring of managers.

2.08 Improved security measures to be provided to ensure the effectiveness of prevailing security systems of societies. Legal action against those responsible be taken immediately and arbitration be carried out expeditiously. A programme should be prepared and implemented to obtain dues as early as possible in keeping with court orders. Recommendations from a committee consisting of persons who have special knowledge and experience may be sought.

2.09 Co-operative societies shall be pioneers in the field of consumer protection, but the concept of conditional trade imposed on them violates this role. Therefore, practices should be discontinued to enable societies to protect their members. Necessary steps must be taken to avoid that the government put conditions on the sale of their goods to co-operatives and institutions and companies.

2.10 Necessary amendments should be made in regard to credit sales and acceptance of cheques in order to increase the turnover of societies. Legal constraints in this regard should be removed.

2.11 Scientific methods to be applied in the design of buildings, display of goods, working (opening) hours of sales centres taking into consideration the interest of the consumers in order to develop the operations of retail shops.

2.12 The rest of forms used at present for financial and stock management be reviewed and simpler sets of forms be introduced instead, to increase business efficiency and reduce costs.

2.13 Each and every store and retail shop should compulsorily use stock order forms and pay attention to the rate of stock turnover, as revealed by regular reports.

2.14 The present system of stock taking should be improved for greater efficiency.

03. Financial Management of Consumer Societies

3.01 Conditions and procedures for the loans obtained from the People's Bank are perhaps harmful, so arrangements should be made to improve them.

3.02 Arrangements should be made to establish a co-operative bank. Financial institutions should be formed at district, provincial and national levels in order to efficiently employ the surplus resources within the movement.

3.03 Necessary steps should be taken to employ effectively the surplus in the rural banks.

3.04 An insurance organization should be established within the co-operative movement.

3.05 The system of supply of goods on credit to the Government sector should be reviewed and an efficient method be introduced to avoid the delays prevailing in recovery.

3.06 Arrangements should be made to implement the revolving loan system.

3.07 Member shares should increase and strategies be formulated to develop the possibilities of obtaining deposits and investing them in business activities.

3.08 The interest paid on the shares of societies should be equivalent to the market rate and the interest for shares should be paid when final accounts are prepared.

3.09 An immediate payment system of rebates to the members should be introduced in relation to the business contribution of each member. A scheme for paying part of the profit for rebates, should be evolved irrespective of the accrued loss described in section 15 of the Co-operative Rules.

3.10 Legal amendments should be made to enable to pay back shares if membership is terminated, and practical action should be taken to build a share transfer fund.

3.11 Necessary steps should be taken to reduce the fixed costs and calculate the costs correctly in the societies.

3.12 Action should be taken to obtain deposits equivalent to the security of employees in instalments.

3.13 Steps should be taken to rectify anomalies of salaries paid by societies. Rules and regulations should be amended where necessary.

3.14 Necessary management development activities should be implemented to improve security of employment and facilitate better salary scales of co-operative employees.

3.15 Either the Department of Cooperatives or another relevant institution should provide the services of General Managers and Accountants where they are required by the societies.

04. Democratic Control, Member Relations and Training Activities in the Consumer Societies.

4.01 Action should be taken to pay sufficient allowances to the members of the Board of Directors and the Sub-Committees.

4.02 It is important to encourage branch committees to prepare and submit projects on business activities and member projects in the area. Power of Branch Committees should be increased for this purpose and the relevant planning must be done from bottom to top - grass root level to Apex level.

4.03 Functions of the Sub-committees should be specified clearly and relevant responsibilities should also be transferred to them.

4.04 Present women committees should be regularized and such committees be directly involved in formulating strategies to improve the business activities of societies. Their assistance should also be sought specially in regard to social and cultural activities.

4.05 The societies should identify needs for social and cultural activities in their areas of operation and should help to hold cultural shows and participate at them. These activities should be undertaken as a part of annual programmes.

4.06 The Government and Co-operative institutions which are implementing co-operative educational programmes should prepare an integrated education plan which should contain training for board of directors and employees and member education. These programmes should aim to solve the problems in the societies.

4.07 In preparing and implementing education plans, all relevant institutions should be given a role in keeping with their specialization and competence.

4.08 The participation of board members in education programmes during their tenure of office should be made compulsory. Instead of the present traditional training, a practical training system should be prepared. Follow-up activities and evaluation are also essential.

05. Assistance expected from the International Co-operative Alliance

5.01 Guidance to form the proposed national consumer Apex and its structure. If there are such organizations in developed countries providing chances to exchange views and experiences.

5.02 Providing of information on consumer unions in developed countries and relevant advice and exchange of knowledge and experience through scholarships, etc.

06. Functions expected from the national level to Consumer Co-operative Federation

6.01 Function as the supplier of goods for the entire consumer co-operative movement:

- Act as the national level spokesman for the current co-operative movement.
- Assist the consumer co-operative societies to stand firm in the competitive market by distributing the quantitative benefits expected in the purchase of goods.
- Minimize the dependence on other organisations performing the functions of the consumer societies.

Example : Purchase of rice from the Paddy Marketing Board and the food Commissioner, Rice Milling on their own without depending on the above institutions.

- Supply of consumer and trade information continually to consumer co-operative societies.
- Supply of surplus as a co-ordination and information centre for import and export activities.

07. General

7.01 A committee consisting of representatives from following institutions should be appointed to implement the recommendations of the national workshop:

- Ministry of Cooperatives
- Department of Co-operative Development
- National Co-operative Council of Sri Lanka
- Sri Lanka Institute of Co-operative Management
- Co-operative Employees Commission.

II

**Proceedings
of the
Workshop**

Chapter II

Proceedings of the Workshop

Inaugural Session

The NCC/ICA National Workshop on Evolving Appropriate Strategies for the Development of Consumer Cooperatives in Sri Lanka was held from 26 to 29 April, 1989 at the Agrarian Research and Training Institute, Colombo.

Hon. Minister of State for Co-operatives, Ravindra Samaraweera, inaugurated the workshop at 09.30 hrs on 26 April, 1989 and made a validatory address. Mr.A.M.Yousuf, Hon.Minister of Food, Cooperatives and Industries for Western Provincial Council, Mr.W.R.B. Daswatte, President, National Cooperative Council of Sri Lanka, Mr.W.P.S.Jayewardhane, Commissioner of Cooperative Development and Mr.W.U.Herath, Advisor, Consumer Cooperative Development, International Co-operative Alliance, Regional office for Asia too addressed the large gathering of invitees.

Representatives from the multi-purpose co-operative societies, apex level co-operative unions and federations, Department of Co-operative Development, Ministry of Cooperatives and Sri Lanka Institute of Cooperative Management constituted the membership of the workshop.

Messrs. C.G.Wijesingha, General Manager, Sri Lanka Ceramic Corporation, S.R.Maligaspe, Senior Assistant Secretary, Ministry of Trade and W.U. Herath, Advisor, Consumer Cooperative Development, ICA ROAP functioned as resource persons.

Workshop Objectives

The workshop had following objectives:

To enable the co-operative leaders and policy makers of consumer co-operatives to :

- i) assess the current situation in regard to consumer co-operative movement in Sri Lanka,
- ii) identify problems and issues hindering the development of consumer co-operative movement in Sri Lanka,
- iii) identify and suggest an appropriate strategy for the development of sound and effective consumer co-operative movement in Sri Lanka.

Proceedings

Mr.H.Vilaradechi on behalf of Mr.S.G.Wijesinghe presented a survey report on the 26th April,1989 on the current situation of consumer co-operatives in Sri Lanka followed by a discussion.

Mr.W.U.Herath, Advisor, Consumer Cooperative Development, of the ICA ROAP presented a paper on the Role of Consumer Cooperatives in a Developing Economy on 27 April,1989 followed by a lecture on Trade Policy of Sri Lanka by Mr.S.R.Maligaspe, Senior Assistant Secretary, Ministry of Trade.

Thereafter, the workshop was divided into three groups who discussed on the current issues concerning consumer cooperatives in Sri Lanka, capital formation, business management and democratic control and member relations and presented their reports at the plenary. At the plenary, the group reports were consolidated and conclusions and recommendations of the workshop were formulated on the 29th April,1989.

Later, the workshop adopted the Conclusions and Recommendations during the afternoon on 29 April,1989.

One of the important event during the workshop was the visit of the Hon.Minister of Agriculture, Food and Cooperatives, Lalith Athulathmudali on 28 April,1989. He addressed the workshop on the new policy of cooperatives emphasizing the need to provide more freedom to cooperatives under the proposed legislation.

III

**Issues for
Group Discussions**

Issues for Group Discussions

General Task for Groups

Assessment of the Current Situation of Consumer Cooperatives and identification of problems in order to arrive at Conclusions and Recommendations.

Issue 01 : Issues concerning concept of consumer cooperation and structure of the consumer cooperative movement.

- What is the present structure of consumer cooperatives? Is it in keeping with the present trends of the market economy?
- Nature of horizontal and vertical relationship among secondary and national level cooperative organisations.
- International organisational structure of primary consumer cooperative societies (MPCSs) and its influence on the profitability of the cooperatives.
- Influence of Cooperative Legislation on the consumer cooperatives and its validity.
- Future relationship between provincial union system and the MPCSSs.

Issue 02 : Business Results of Consumer Cooperatives:

- On which type of sales the consumer business is dependent? (Wholesaling, distribution of essential commodities, rationing schemes or open retail business).
- Present market share of consumer cooperatives in retail business and its adequacy.
- Status of government in consumer cooperatives, its support and problems.
- Business turnover and sales cost.

- Profitability of different type of consumer business and problems.
- Business operations of imports and exports.
- Processing and packaging of consumer products.

Issue 03 : Financial status of consumer cooperatives:

- Financing of consumer cooperatives and problems involved.
- Differences between owned capital and borrowed capital and its problems.
- Re-investment of surplus and problems arising out of providing rebates and dividends.

Issue 04 : Management of consumer business:

- Existing organisation for consumer business management and division of functions and its relevance to present challenge.
- Problems of purchase, sales and stock management.
- Problems of procedures for leakages and pilferage.
- Management issues arising out of changing market situations.
- Present supply sources and other appropriateness.
- Management organisations for import of consumer commodities.
- Present arrangements for management development and education and training facilities for staff.

Issue 05 : Democratic control and member participation in consumer cooperatives:

- Present level of member participation in business planning and management of consumer cooperatives.
- Present level of business management and resource management by management committees and its problems.
- Present arrangements for consumer protection, consumer rights and their appropriateness.
- Present arrangements for education and development of members.
- Social and cultural activities for members and relevance.

IV

Group Reports

Group Reports

Group No.01

Members

01. Mr.M.G.S.Dharmasena (Chairman)
02. Mr.Hema Wilarachchi
03. Mr.S.Velayudam Pillai
04. Mrs.S.Obeysekara
05. Mr.L.G.Soorasena
06. Mr.D.K.Wijewardhane
07. Mr.Weeraratne Kumarage
08. Mr.D.E.Pathirana
09. Mr.D.Pandigama
10. Mrs.Sheila Heenatimulla (Secretary)

01. Concept and Structure of Consumer Cooperative Movement

1.01 There should be secondary and national level consumer cooperative organisations. Nature of men and organisation is given in the annexed note.

1.02 There should be a group of professionals in the management between the board and the general manager.

The general body of the cooperative society should select a supervisory committee from the membership.

- The present bye-laws of the co-operative society should be changed to suit such an arrangement.
 - The role of such a group should be definite.
 - The general body should be empowered to make necessary modifications in the group.
- 1.03 More powers should be vested with the branch committees.
- Working rules should be prepared to accommodate such an arrangement, e.g. forward recommendations for supply of commodities to the branch, approval of consumer loans.
 - A member should be given a monthly credit for goods worth Rs.5000 with the covering approval of the board.
 - Disposal of the outdated or damaged goods.
 - Supervision of storage.
 - Supervision of price lists and updating price lists.
 - Recommend on the supply of all consumer commodities to the branches.
- 1.04 Identify and empower the different roles of board of directors, proposed management supervision committee and other executives and
- Guidance should be provided for such an exercise.
 - Societies should take action to select suitable staff.
 - The limits provided in the Rules should only be confined to find assets such as buildings, machinery and lands, etc.
- 1.05 The general body should be empowered to elect the president of the cooperative society.
- 1.06 Government should have expressed role for cooperatives in their policy formulation and implementation.
- 1.07 Circulars should not be treated as law but as provision of guidance and danger signals.
- The responsibility for corrupt practices and misdeeds should be with the board of directors.

Society should have sole authority to fix prices of all commodities sold at the society.

1.08 Action should be taken to prevent unfortunate competition among cooperatives in their business practices.

1.09 Following recommendation is made to bring down the cost of billing in cooperatives.

Business turnover tax should be limited to wholesale business only.

1.10 The legislation should be modified to accommodate credit sales to members and institutions.

02. *Business Management in Consumer Cooperatives*

2.01 Introduction of an incentive scheme based on cash sales.

It is expected to come to an agreement with the relevant authorities in charge of food stamps, poverty alleviation programmes and relief programmes.

2.02 Preparation of budgets based on market survey and obtain approval from the general body. This is a function for sales manager.

2.03 Following business strategies could be followed on the basis of consumers tastes:

- Packeting of commodities,
- Using wrappers,
- Introduction of quality goods,
- Introduction of self service shops,
- Introduction of home delivery, and
- Delivery of goods to offices.

2.04 All the premises, equipment and machinery should be cleaned annually on mutual-help basis. Modernization too to be undertaken.

Branch committees should be used for consumer surveys. They should be paid an allowance.

- 2.05 Appropriate advertising arrangements should be made highlighting quality and cheaper price of commodities.
- 2.06 The existing purchasing management procedures should be made compulsory.
- 2.07 Strengthening of store security.
- 2.08 Prompt legal action to be taken on pilferage.
- 2.09 Expediting arbitration awards.
 - A committee specially appointed for the purpose should recommend necessary measures.
- 2.10 Conditional sales should be discouraged as it is against the consumer protection act.
- 2.11 Sales against cheques should be regularized.
- 2.12 Selection of locations for shops is a function of the branch committee.
- 2.13 Stock order form should be implemented in all consumer shops.
- 2.14 Stock turns should be given emphasis.
- 2.15 An efficient stock taking procedure should be introduced for slow moving goods such as hardware and textiles.

03. Financial Management in Consumer Cooperatives

- 3.01 A cooperative bank should be established.
- 3.02 Most surplus of rural banks for useful purpose in cooperatives.
- 3.03 Establish an insurance system within the cooperative sector.
- 3.04 Recycling of loans.
- 3.05 Increase deposits from members.

- 3.06 Minimum share value should be increased to Rs.100 and allow members to pay in 10 instalments.
- 3.07 Setting apart interest for share capital at the time of final accounting.
- 3.08 Pay a minimum interest rate of 10%.
- 3.09 A system of 'across the counter' dividend should be introduced.
- 3.10 A share purchase fund should be created.
- 3.11 Shares should be paid back at the time of withdrawal of membership.
- 3.12 A compulsory deposit equivalent to the surety should be obtained from the employees.

04. *Democratic Control and Members' Participation in Consumer Cooperatives.*

- 4.01 Planning exercises should be basically started at the branch level in order to implement projects for membership.
- 4.02 The role of sub-committees should be transferred to them.
- 4.03 Following strategies should be employed to activate women's committees:
 - Social activities in the society area,
 - Granting scholarship to children, donation of school books to needy children,
 - Provide help at needy times,
 - Allocation of surplus in fair percentages for members' welfare.
- 4.04 Organise cultural activities in keeping with the traditions and taste of people in the area.
- 4.05 A coordinated cooperative education plan should be prepared by the government and cooperative training institutions.

4.06 The training activities should be allocated in keeping with the capabilities of the institutions.

4.07 Participation in training programme meant for board members should be made compulsory for them.

05. *The Assistance needed from the ICA*

5.01 Guidance for the development of consumer cooperative federation.

5.02 Provide opportunities to exchange experiences with developed consumer cooperatives.

5.03 Provide information on developed cooperative systems and provide scholarships to keep them.

06. *The Role of the proposed Consumer Cooperative Federation*

6.01 Function as the sole supplier and distribution for the entire consumer cooperative movement.

6.02 Function as the spokesman for the consumer co-operative movement.

6.03 Support member primary cooperatives by sharing margins on consumer goods in order to compete with private retailers.

6.04 Set up independent supply lines without depending on government agencies.

6.05 Provide information on trade and consumer matters to member societies.

6.06 Provide services as a link between import/export agencies and member societies.

Group 02

<i>Members</i>	1. Mr.Mahipala Herath	<i>Chairman</i>
	2. Mrs.S.Palihakkara	<i>Secretary</i>
	3. Mr.P.G.Abeykeerth	
	4. Mr.Jayatissa Samarasinghe	
	5. Mr.Dharmasena Haputantri	
	6. Mr.Siripala Hataransinghe	
	7. Mr.Ananda Kumarasinghe	
	8. Mr.S.D.Gunasena	
	9. Mr.R.K.Samarasinghe	
	10. Mr.S.Sivamaharajah	

Issue 01 : Issues concerning concept of consumer cooperation and structure of the consumer cooperative movement.

Conclusions

It is necessary to identify needs of the members, consider their proposals and rectify defects.

Recommendations

- Solutions should be found for the needs and plan accordingly.
- Purchases, sales, opening and closing times, complaints and proposals should be reviewed on the basis of members' needs.
- Maintain close dialogue with the members in order to meet their needs by the board of directors and management.

(These activities should be undertaken by the branches and the head offices of multi-purpose cooperative societies)

Appoint a committee with business efficiency

- The general body either from their individual members or any other outsider should appoint a committee with business competency at a general meeting.

(This should be undertaken by the head office of the MPCs)

Secondary and national level consumer unions should be established.

- The primary consumer cooperatives should get together and form secondary unions which could in turn form an apex federation.

(The NCC and Department of Co-operative Development should provide guidance)

Professional staff should be appointed for managing business

- Suitable salary scales should be provided.
- General manager's services and accountant's service should be created for cooperative sector.

(This should be undertaken by the Department of Cooperative Development)

The Cooperative Legislation should be modified in order to facilitate quick decisions on purchases.

- The volume of purchases should be decided by a committee
- The management should be empowered to buy goods at a competitive price.

The rules concerning handling cash should be simplified

- The purchasing committee should review purchases.
- Purchases, margins and sales should be compared at the district and national levels.

- A market information system should be established.

- The present rule of using cheques for purchases above Rs.1000 should be changed. More discounts can be obtained when paying cash.

(These should be undertaken by the primary cooperatives and national level organisations).

Business activities should not be controlled by rigid legislation

- When dealing with perishable commodities, the assessment should be done not on each consignment but on a volume business at a particular period of time.

Permission should be given to undertake credit sales with public institutions

- A system of obtaining deposits from public institutions should be created.

- Credit sales to be made on agreement with heads of institutions.

Billing should be done. BTT too should be paid properly.

- The societies could be run profitably by exempting them from BTT.

(Government should take action on this)

Rule 48 should be amended

- The Department should take action to this effect.

Issue 02 : Business Results of Consumer Cooperatives:

There should not be any drop of free sales during ration distribution time. The cost is escalated due to employing permanent staff during this period.

- The manager should be allowed to recruit casual employees

(This could be undertaken at the branch level)

- The consumer cooperatives should continue to undertake distribution of essential goods (rice, flour, sugar, etc).
- The accountant should take action to increase margin for this work. 10% should be for consumer goods whereas free goods should have 2%.
(The government to take action)
- Poor relief, stamp schemes, drought relief, etc. should continue to be with the cooperatives.
- The government should provide advances for this activity.
- The use of society resources to distribute welfare goods demoralize the staff.
- The staff should be educated to change their attitudes.
(The General Manager should take action)
- Ignorance about the market share causes deficiencies in Planning.
- A market survey has to be undertaken as to know the market share.
(The society should take action with the help of members)
- The sales strategies in relation to consumers' taste should be evolved.
- Courteousness, modernization, packing, trust, provision of packed goods, rebates, gifts.
(To be undertaken by branches and the Head Office)
- The Government provides poor relief as assistance.
- Although the government assistance could help weak societies, strong societies do not need any help.
- Cooperative activities should be included in the National Development Plan.
- The government should use cooperatives for national development. The grants received under 'Jana Saviya' should be used to develop entrepreneurship through cooperatives in the rural areas.
(This should be undertaken by the government)

Business turnover is getting lesser and lesser.

- Strategies should be evolved to increase sales per employees. (e.g. packeting, self-service shops, etc.)

(To be implemented by the Head office of the societies)

Provide finances to weaker Societies.

- Take action to receive timely guidance and evaluation reports from relevant organisations.

(To be undertaken by the Department and other relevant institutions)

The Peoples Bank, although fed by the cooperatives causes difficulties in obtaining financial facilities. It emphasizes on its own security of their money and not the development of the organisation. Therefore cooperatives should withdraw from the Peoples' Bank very soon.

- District Cooperative Banks should be established.
- Seeking credit facilities, pledging the deposits of rural cooperative banks held in commercial banks.
- This should be closely supervised by the department (The department uses this method for loaning money from the treasury). This would prevent unnecessary cost incurred on stamp duties and guarantees.

(This is to be undertaken by the secondary level organisations)

The boards should know their role in the society. A code of conduct should be introduced.

The duties and responsibilities of boards and members in the bye-laws should be more definitive.

(To be undertaken by the NCC and the Deptt. of Coop Development)

The staff should be trained in order to meet the challenge of open market.

- Identify problems in business.
- Coordinate with training institutions.
- Provide integrated training.
- The training should be aimed at the market competition and practical.
- Follow-up action should be taken.

(To be undertaken by the NCC and the Deptt. of Coop Development)

Legal loopholes in dealing with pilferage should be rectified.

- The law departments should be concerned about this.

(Prosecution to be undertaken by the Department of Coop Development)

The conditions imposed by the Government in spite of open economy should be eliminated.

(By the Government)

Action should be taken to overcome goods shortages.

- Buffer stocks should be maintained at the society level.

(To be undertaken by secondary level organisations)

The influence of manufacturers and their agents should be eliminated.

- A national level organisation could handle this problem.

There are no barriers for selling packed items.

- Sales cost could be reduced by packing goods.

(To be undertaken by the society)

Proper selling points should be located.

- Buildings unused by the Govt. should be taken for this.

(To be implemented by the society)

Store requirements should be observed.

- The goods needed by the area only to be brought and maintain a proper stock control.
- Indirect influences as to acquire unnecessary stocks by the society should not be shown.
- Review whether surplus stocks are maintained.
- Order forms should be used when indenting goods from the warehouses.

Difficulties in checking fuel stocks

- A system should be evolved in consultation with the Petroleum corporation.

(To be undertaken by the society and the relevant ministry)

Issue 03 : Financial status of consumer cooperatives:

The present assortment is insufficient

- Assortment should be increased

Sales cost should be properly calculated

- The sales cost should also include the cost upto selling a commodity to a consumer.
- Per capita employee sales should be increased.

(To be undertaken by the society)

Establishment of a shop should be preceded by a feasibility study

- The study should forecast the cost benefits of the project.

(The society should undertake this)

Attention should be paid to procuring of commodities

- Local agricultural produce should be processed and sent to the market.

External capital of the society should be lower than the members' own capital in the society

- Increase membership.

(Action to be taken by the branches and the society)

There should not be any anomaly in the salary scales of employees.

- All employees should be given scales recommended by the Cooperative Employees' Commission
- Scales should not be tied down to turnover of the society.
- Salaries should be in keeping with the government and corporation scales.
- Payee tax should not be applied to Cooperative employees.

(The government should take action on this).

The limitations under rule 15 should not hinder division of surplus

- The present rule compels to balance accumulated loss for many years from the years which have profits. Therefore, balancing should be done after deducting members' dividends.

(The government should take action on this)

The present margins are insufficient to pay dividends

- Action should be taken to increase the margins.

(Action to be taken by the society)

Members should be encouraged to invest the surplus

- A portion of the surplus should be distributed as members' rebates.

(Action to be taken by the society)

The society should not depend on the credit given by government

- Societies will lose independence with state loans.

Facilities should be provided to transfer shares.

- Society should establish a share transfer fund.

(Action to be taken by the society)

Issue 04 : Management of consumer business:

Consumers should be educated on new products.

- Publicity and training strategies should be evolved

Inactivity by women committee hinder progress of consumer cooperatives.

- Women should be involved in management. Training facilities for them too to be provided. Self-employment should be introduced.

(Action to be taken by branches and societies)

A programme of social and cultural activities should be evolved.

- A wide programme of members' welfare and cultural activities should be implemented.

Scholarship for members' children cultural shows etc to be introduced.

(Action to be taken by branches and societies)

Group 3

Members	1.	Mr.P.H.Abeysekera	Chairman
	2.	Mr.S.Mariam Pillai	
	3.	Mr.W.R.R.Seneviratne	
	4.	Mr.D.Kalansooriya	
	5.	Mr.Milton Jayaratne	
	6.	Mr.H.G.S. Jayaratne	
	7.	Mr.Sarath Velihena	
	8.	Mr.S.W.Rajapakse	
	9.	Mr.P.H.Perera	
	10.	Mr.Dissanayake	
	11.	Mr.Shanmugasundaram	
	12.	Mr.M.P.Perera	Secretary

Issue 01 : Issues concerning concept of consumer cooperation and structure of the consumer cooperative movement.

Recommendations

1.01 (a) There should be a body at the district level guiding the boards as to ensure proper decisions are taken. This would consist of:

- i. A.C.C.D/D.O.C.D.
- ii. Consultant, SLICM
- iii. Representative from NCC
- iv. Representative from the People's Bank.

(Responsibility: Provincial Council, Ministry of Cooperatives, ACCD)

(b) There should be an intermediary consumer body between the Board and the General Manager.

(Responsibility : Society)

1.02 To review the area of operation of the MPCs and re-determine in terms of viability.

(Responsibility: Provincial council, RLS, Societies)

(Guidance: Feasibility study by SLICM)

- 1.03 Identify deficiencies of member relations and viability of branches and re-determine them.

(Responsibility: Board of management of society)

(Guidance : Feasibility study by SLICM)

- 1.04 Divide the society into zones according to number of branches, membership and staff and decentralize powers concerning distribution of goods, supervision and education. Development officers should be appointed to be in charge of zones.

(Responsibility: Board of management, ACCD)

(Guidance: SLICM, NCC, People's Bank)

- 1.05 The existing organisation of consumer sector should be more systematized in order to obtain up-to-date information and having clear demarcation of duties.

(Responsibility: Board of Management)

(Guidance: SLICM, NCC, Deptt. of Coop Dev.)

- 1.06 Cooperatives should receive government help but it should not interfere with democratic nature and autonomy of cooperatives. Any rules preventing such a feature should be reviewed. The NCC should take initiative to campaign for such an autonomy.

(Responsibility: Government, NCC)

- 1.07 The government should recognize the potentiality of cooperation in their planning of national development programmes and give more responsibility to cooperatives.

(Responsibility : Government)

Issue 02 :Business Results of Consumer Cooperatives:

- 2.01 The present procedure and circulars on purchases, pricing, transfers, disposal of spoilt goods, should be modified in order to face the challenge of open economy.

(Responsibility: Deptt. of Coop Dev., SLICM)

(Guidance : SLICM)

- 2.02 A sub-committee which meets monthly should decide on the monthly requirements of assortment and the volume to be procured according to purchase analysis used at present.
(Responsibility: Board of Management)
(Guidance: SLICM)
- 2.03 A committee should be appointed to study the existing accounting system and find ways and means of simplifying it.
(Responsibility: Deptt. of Coop Dev., SLICM, Cooperative Societies)
- 2.04 A data system should be created at the society, district, provincial and national level in order to help purchasing management.
(Responsibility: SLICM)
- 2.05 A training scheme and follow-up work should be evolved in order to overcome the problems mentioned in recommendation 1-4 in the consumer cooperative management; e.g. purchasing management, - stock control. Forms connected too should be modified.
(Responsibility: SLICM, Deptt. of Coop Dev., NCC)
- 2.06 Sometimes, sales policy should be changed to ensure preferential treatment to members.
(Responsibility: Board of management)
- 2.07 a) Systems should be evolved to prevent pilferage and rules should be changed to facilitate speedy recovery of dues.
(Responsibility : Deptt of Coop Dev.)
- b) The indifference shown by the police in legal matters should be overcome.
(Responsibility: Provincial Councils Ministry of Cooperation)
- c) The circuitous route taken to pay the recoveries from court cases should be rectified.
(Responsibility: Ministry of Coops, Deptt. of Coop Dev.)

- 2.08 Negotiations should be undertaken to overcome the negative conditions imposed on cooperatives by the governmental agencies and corporations.
(Responsibility: District Unions, Deptt. Coop Dev.)
- 2.09 Limits on cash purchases should be eliminated. Constraints on credit sales should be removed.
- 2.10 Improvement of shops and better display of goods. The restrictions imposed at present for repairs to private buildings should be removed.
(Responsibility: Board of management)
- 2.11 The margins provided for the services rendered to government are insufficient. Steps should be taken to prevent delays in obtaining money for credit sales.
- 2.12 The present credit sales on fuel causes government charges to the society. Therefore an alternative system should be created.
- 2.13 The negative conditions of Peoples Bank on loans provided to cooperatives should be removed.
(Responsibility: Peoples Bank)
- 2.14 A national committee should be established for purchasing management training.
(Responsibility: Ministry of Cooperatives, Deptt. of Coop Development).

Issue 03 : Financial status of consumer cooperatives:

- 3.01 Members' share capital should be increased. The restrictions on investing surplus should be removed.
(Responsibility: CCD & RCS)
- 3.02 Cooperative financial institutions should be created at district, province and national level.
(Responsibility: NCC, District unions)
- 3.03 A national level organisation should be set up for imports and exports.
(Responsibility: Ministry of Cooperation, Deptt. of Coop Dev., NCC)

(Guidance: SLICM)

3.04 A system should be evolved to reduce fixed costs of societies. A suitable accounting system too should be created.

(Responsibility: Deptt. of Coop Dev., NCC)

(Guidance: SLICM)

3.05 The present rule No.15 should be amended to ensure members rebates ignoring the accumulated losses.

(Responsibility : Deptt.of Coop Dev., Boards)

3.06 The anomalies created by having 2 systems of salaries, i.e. Wage Boards and Cooperative Employees Commission should be eradicated.

(Responsibility: Deptt. of Coop Dev., CECC)

Issue 04 : Management of consumer business:

4.01 The planning process should start from the bottom. Branch committees should be given more powers.

(Responsibility: Deptt. of Coop Dec., NCC)

4.02 Women committees should be encouraged and improve member relations.

(Responsibility : Board of management)

4.03 The traditional system followed at present for branch committees and general body should be improved and more incentives to be provided.

(Responsibility: NCC, Deptt. of Coop Dev.)

4.04 A suitable allowance should be given to board of directors and committee members.

(Responsibility: Deptt. of Coop Dev., Board)

4.05 Identify social and cultural activities in the area and participate which result in better member relations. Provisions should be made in plans and budgets.

(Responsibility: Board of management)

4.06 Constant training should be provided to boards and staff members. Department of Coop Dev., NCC and SLICM should function in coordination with such a programme.

(Responsibility: SLICM, Deptt. of Coop Dev., NCC)

V

Resource Documents

Resource Documents

Current Situation in Consumer Cooperative Movement in Sri Lanka by Mr.S.G.Wijesinha

01. Introduction

This paper is prepared on behalf of the International Co-operative Alliance - Regional Office for Asia, and the National Cooperative Council of Sri Lanka. The paper is expected to discuss the current situation in the consumer cooperative movement in Sri Lanka so that its presentation at a workshop on "Evolving appropriate strategy for the promotion and development of an effective and sound consumer cooperative movement in Sri Lanka" will lead to the formulation of a strategy for developing an effective and viable consumer cooperative movement.

This paper discusses in more detail, the economic aspects and viability of the present consumer cooperatives, as this aspect has been given less consideration in the past. The emphasis in this paper is on identifying and rectifying those factors that hamper economic performance. This is done in the belief that an economically strong cooperative will be able to pay its employees well and satisfy consumers, resulting in the consumer cooperative movement enhancing its image and become more attractive to present and prospective employees and existing and prospective members.

02. Historical Setting of Consumer Cooperatives

Although the first cooperative form was introduced to Sri Lanka in 1911 with the enactment of the Cooperative Credit Societies Ordinance, it was only in 1942 that consumer cooperatives began to be set up.

The Government at the time was convinced that cooperative retail shops were the best means of distribution. During World War II, and consequent to Japan entering the war, the existing mechanism for the import and distribution of food commodities was disturbed. As the food situation became acute, the government commenced a programme in 1942 to set up Cooperative Stores. By 1945, there were 4,000 stores with one million members and serving about 3.8 million consumers. After the War, the enthusiasm decreased and the number of societies decreased to about 2,500, but these stores continued to serve almost the entire population of the country.

In 1957, the government decided to form village level multi-purpose cooperative societies instead of having several different single purpose cooperative societies. This was conceived in order to make it more convenient for members, so that they would be a member of one multi-purpose society rather than of several single purpose societies, and also to improve efficiency of operations. The government also had ambitious plans to set up a multi-purpose cooperative in every village.

In 1971, as a result of the recommendations made by the Royal Commission on Cooperatives of 1968, the government amalgamated the then existing village primaries into 372 large primaries. The former village primaries became branches of the large amalgamated units. The district unions which existed under the earlier system were also abolished. Today after further amalgamations and other modifications, 281 of these large multi-purpose cooperatives (MPCSs) exist, and although expected to be multi-purpose, they are predominantly consumer cooperatives.

03. Structure of MPCSSs

3.1 *Membership and representative structure*

3.1.1 *Area of operation*

The area of operation of an MPCS varies from society to society. Some are AGA divisions while some cover an entire electorate. There are a few which extend to more than one electorate. (Annex 1 gives the number of MPCs in each ACCD Division).

3.1.2 Membership

Membership which is open to those over 18 years, and of the area can be obtained by the purchase of at least one share priced at Re.1/- in some societies and Rs.10/- in others. (Annex.2 gives the number of members of MPCs under each ACCD Division).

3.1.3 Pradeshikas (Branch Unit)

Each MPCS has several pradeshikas depending on the size of the society. Every member of the MPCS will belong to no or other Pradeshika. The Pradeshika has an elected 9 member committee. This committee is expected to oversee the work of the branch retail shop and see to the interests of their members. Today most of these branch committees are dormant.

3.1.4 General Body

Each MPCS has a general body consisting of 100 delegates elected by the branch committees. It is the general body that meets every year at the Annual General Meeting to consider and approve the accounts, budgets, plans of the MPCS and to elect the Board of Directors once in three years.

3.1.5 Board of Directors

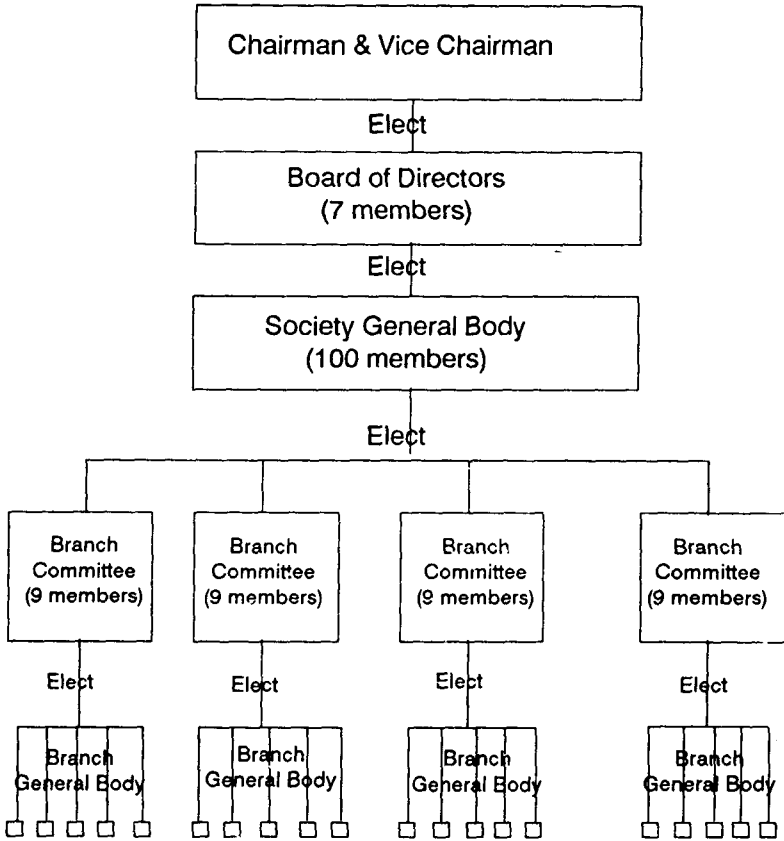
A seven member Board of Directors is elected by the general Body for a period of three years. This board will elect a Chairman and a Vice Chairman. Figure 3.1 depicts the manner in which members' representatives are elected.

3.2 Management Structure

The chief executive is the General Manager and under him at the next level will be the Accountant, Commercial Manager and the Bank Services Manager. There are other posts in large societies. A typical organisation chart of an average MPCS is depicted in Figure 3.2

Figure 3.1

System of Electing Representatives in an MPCS



3.3 Business Operations

MPCSs, although mainly involved in consumer activities, are also involved in various other commercial activities as well. (In the classification of MPCS, the Colombo South Cooperative Society is included although it is not an MPCS).

In addition to consumer retail and wholesale operations and rural banking operations which every MPCS has (Colombo South Cooperative Society has no rural banks) a sample of 30 MPCS had the following commercial operations:

Agricultural Section	1
Paddy Purchasing	2
Rice Milling	2
Grinding of spices	1
Tour service	1
Textile sales unit	12
Packeting section	11
Self Service shops	5
Petrol sheds	14
Service stations	1
Bakeries	1
Hardware sales	7
Printing presses	3
Building material sales	2
Audio hire	1
Barber saloons	1

04. Performance

4.1 Recent trends of profitability

Until 1978, MPCSs played a prominent role in the economy of Sri Lanka as a distributor of rations: a system which commenced during the war. In 1977, consequent to a change of government, the MPCSs lost the level of government patronage they had enjoyed earlier, and not being prepared to face a competitive environment, began to operate without direction. Little or no efforts

were made by the MPCSSs to accept the new operating environment, to formulate a new strategic direction and to take advantage of the new opportunities. They continued to operate with the hope that the government will step in and rescue them.

Until 1977, MPCSSs were 'administered' rather than 'managed'. The expertise available in the Department of Cooperative Development was also in this direction. The government institutions which were responsible for guiding, assisting and controlling the MPCSSs were also unaccustomed with business strategy formulation and corporate long range planning. Therefore for several years after the liberalised economy was introduced, MPCSSs began to drift without a new strategic direction. By this time most of the reserves the MPCSSs had built up under the era of protection and patronage continued to be eroded. the large work force which was necessary during the era of rations continued to be employed resulting in a severe working capital hemorrhage. The percentage of profit making MPCSSs since 1972 can be seen in Table 4.1

Table 4.1 - % of Profit making MPCSSs 1972-1987

<i>Year</i>	<i>% of MPCSSs running at a profit</i>
1972	80
1973	78
1974	66
1975	68
1976	N/A
1977	N/A
1978	68
1979	77
1980	72
1981	N/A
1982	42
1983	40
1984	48
1985	52
1986	60
1987	72

(Source : SLICM)

It was only in 1982, some attempts were made by the Sri Lanka Institute of Cooperative Management (SLICM) and the Department of Cooperative Development to study the problems of MPCSSs with a view to initiate a programme of rehabilitation. In 1983, after ethnic disturbances and the great role played by the MPCSSs to keep the food supply lines functioning, the government became concerned about the imminent collapse of the MPCSSs and commenced a scheme of rehabilitation.

As a result of these initiatives, some form of turnaround resulted (See Table 4.1) but all these schemes were responses in a re-active manner; what is required is a comprehensive strategy in a pro-active manner.

4.2 Measures of Performance and Evaluation

The earlier section discussed profitability as a means of assessing survival without government financial support. However, MPCSSs need some measures by which performance can be measured. Performance measures are always controversial and more so when it relates to cooperatives spawned by the government as a means to achieve a more fundamental goal.

4.2.1 Performance in terms of Social Development

Consumer cooperatives are an eminently suitable mechanism for development. Food, work and equality are considered three of the basic necessities for development. Consumer cooperatives can supply all these. The basic needs approach of development is said to be an approach designed to meet:

- (a) the income earning opportunities for the poor;
- (b) the public services that reach the poor;
- (c) the flow of goods and services to meet the needs of all members of the household; and
- (d) participation of the poor in the ways in which their needs are met.

Consumer cooperatives fit into this approach very well.

MPCSs have been performing a role fulfilling the following:

- (a) making food commodities available to the poor under poor relief schemes of the government,
- (b) stabilizing prices of food by making available the network of shops for the release of food commissioner's buffer stocks in times of scarcity,
- (c) the reasonable prices in cooperative shops keep the open market prices in check,
- (d) making shops available for disaster relief,
- (e) wholesaling operations making it possible to service even the remotest of areas,

In terms of providing food for the poor and providing basic needs, the MPCSSs can be evaluated as having performed well.

4.2.2 Member oriented performance

This is another measure used to evaluate the performance of cooperatives. As it is not part of the terms of reference of this paper to discuss this aspect, I will briefly state that an evaluation using this measure gives a very poor result. It is common knowledge that the membership of MPCSSs is alienated and that the great majority of members do not receive more benefits than non-member consumers.

The spirit of cooperation rarely exists in MPCSSs and democratic control is more often than not a farce. Business results also point to the fact that democratic control may be inefficient.

4.2.3 Commercial Efficiency

Commercial efficiency is the other measure of performance and is perhaps the most critical even if it is not considered the most important.

Profit made by MPCSSs is one way in which an assessment of performance can be measured. Table 4.2 shows profits and losses since 1972. The earned profit is some times misleading due to the fact that the final profit may be after paying consumer

rebates, incentives to employees etc. Therefore, losses may be a better indicator of performance trend. If consumer activities only are to be evaluated this table is misleading because it includes profits from rural banking and other commercial activities. However, this table provides some indication of the trend of performance.

Table 4.2 - Profits & Losses of MPCs, 1972-1985

<i>Year</i>	<i>Profits of Profit making MPCs (in Rs.m)</i>	<i>Profits adjusted to 1980 constant prices (in Rs.m.)</i>	<i>Losses of loss making MPCs (in Rs.m)</i>	<i>Losses adjusted to 1980 constant prices (in Rs.M.)</i>
1972	24	-	2	2
1973	22	-	3	-
1974	27	-	6	-
1975	35	-	5	-
1976	-	-	-	-
1977	-	-	-	-
1978	31	-	9	-
1979	47	-	9	-
1980	50	50	13	13
1981	24	21	45	38
1982	17	14	64	52
1983	25	16	61	40
1984	38	19	55	28
1985	37	22	42	25

(Source: SLICM)

The profit indicated in a MPCs may be totally misleading if the major part of it is rural banking surplus because these surpluses cannot be used for other purposes. It is therefore not surprising to find MPCs on the verge of collapse but showing a healthy profit in the P & L account.

The Table 4.2 however indicates a decline at first and then a recovery which is consistent with the trend shown earlier in Table 4.1.

Many people involved at policy making level and at operational level do not fully appreciate the distortion of profit by the rural banking activities. Table 4.3 shows profit of ten randomly selected profit making MPCs inclusive and exclusive of rural bank activities. This clearly shows that many MPCs would be in the red if not for rural banks. As explained earlier these rural bank profits are of little use for the consumer division.

The turnover of the MPCs has been increasing over the years as seen in Table 4.4 but has been almost stagnant in the last few years. A meaningful assessment of the increase can only be made by adjusting for constant prices. However, since an adjustment can be meaningful, only if an index is calculated for the commodities traded in, and as this would have been tedious, no attempt was made to adjust these figures.

**Table 4.3 - Profits with and without Rural Bank
Section of 10 randomly selected profit making MPCs**

<i>MPCs</i>	<i>Profit & Loss without rural bank section (Rs. m.)</i>	<i>Profit & Loss with rural bank section (Rs.m.)</i>
1. Maharagama	(0.2)	0.14
2. Gampaha	(2.0)	(.99)
3. Meerigama	(1.0)	0.32
4. Kelaniya	0.9	1.43
5. Kalutara	(0.3)	(0.12)
6. Bruwala	(0.3)	(0.1)
7. Panadura	(0.3)	0.1
8. Dambadeniya	(0.1)	0.2
9. Nikaweratiya	0.0	0.1
10. Ridigama	(0.2)	0.2

(Source: SLICM)

Table 4.4 - Turnover of MPCs 1977-1987

<i>Year</i>	<i>Turnover in Rs. million</i>
1977	2,583.7
1978	2,809.3
1979	4,602.8
1980	6,342.2
1981	11,926.0
1982	9,626.4
1983	9,520.4
1984	8,657.3
1985	10,295.0
1987	10,601.5

(Source: SLICM)

The more profitable MPCs (excluding profits from non-trading income) make their profits on wholesale trading and fuel sales. It is very rarely that even half their branches run at a profit. Branches would show even more losses if head office overheads were also apportioned to them. Table 4.5 shows how significant wholesales and fuel sales are.

In many MPCs food stamp sales constitute a significant portion of retail sales. If not for food stamp sales, the losses of branches would have been much more. The percentage of food stamp sales to total retail sales is shown in table 4.6.

Table 4.5 - % of Wholesale and Fuel sales and % of branches running at a profit in 1986 of 20 randomly selected MPCSS

	<i>% of W/S on total sales</i>	<i>% of fuel sales on total sales</i>	<i>% of branches running at net profit</i>
1. Moratuwa	42	38	6
2. Mahara	59	-	7
3. Arachchikattuwa	38	-	17
4. Dambadeniya	59	-	19
5. Katugampola	32	34	24
6. Bulathkohupitiya	42	30	9
7. Rathgama	69	-	2
8. Teldeniya	31	36	17
9. Harispattu South	61	3	13
10. Yatinuwara Kandu	78	-	4
11. Rangiri Damulu	21	52	12
12. Dehivini Palatha	40	-	14
13. Bentota	58	-	10
14. Yatalamatta	65	-	16
15. Niyagama Pitigala	67	-	18
16. Katiyawa	10	-	5
17. Kagama	50	-	2
18. Galgamuwa	38	32	40
19. Kehelella	43	26	16
20. Laggala	22	11	23

Table 4.6 Food Stamp sales to retail sales of MPCSSs in 1985

<i>% of Food stamps</i>	<i>No. of MPCSSs</i>	<i>% of MPCSSs</i>
20 and less	18	16
21-40	40	37
41-60	31	28
61-80	15	14
Greater than 80	6	5

The gross profit percentage of the majority of MPCSSs is less than 4. Many cooperative visitors from western countries express surprise at this low level of GP %. However, this is not an unusual figure for this part of the world. Also it is not the GP % that matters but how it is managed. Table 4.7 gives an indication of the distribution of GP %.

Table 4.7 Gross Profit % of MPCSSs -1986

<i>GP %</i>	<i>No. of MPCSSs</i>	<i>%</i>
2 and less	21	12.7
2.1-3	69	41.8
3.1-4	49	29.7
4.1-5	16	9.7
Greater than 5	10	6.1
Total	165	100.0

(Source: SLICM)

Sometimes MPCSSs reduce prices and are very pleased when sales increase but SLICM consultants report that in several cases the increased sales have not compensated for the reduction in gross profit. Pricing mechanism varies from society to society but there is no evidence of good pricing practices in many MPCSSs.

'Cost plus' pricing was suitable during a controlled economy, but today more realistic competitive pricing should be practiced.

Another factor which reduces GP % is bad purchasing. Purchasing by Presidents and Board members are very often faulty. Corrupt practices in purchases reduce the GP %. As the low GP % cannot absorb such reductions, malpractices can be disastrous to MPCSSs. Analysis of MPCSSs that collapsed and those that performed poorly show considerable evidence of low GP % due to corrupt purchasing.

Leakages is another factor which considerably reduces the working capital of the society. The seriousness of this can be seen from Table 4.8 and Table 4.9. Although in western countries a 1% leakage is ignored, we in Sri Lanka with only a 3.0%-4.0% GP cannot ignore this.

Stock management is very poor in most cases, because concepts such as stock turnover were not very relevant earlier before liberalisation. Today with high interest rates and the difficulty of increasing the working capital, very high priority should be given to stock management. Table 4.10 gives an indication of stock days. With large scale wholesaling and with significant fuel sales, stock days should not exceed 15. Even if the operations are retail only (excluding textiles and hardware) stock days should not exceed 25. However, 1986 figures show a marked improvement over 1985 figures.

Table 4.8 Leakage as a % of sales - 1986

<i>% of leakage</i>	<i>No. of MPCSSs</i>	<i>%</i>
0.5 and less	83	47.5
0.6-1.0	44	25.1
1.1-1.6	30	17.1
1.7-2.0	5	2.9
Greater than 2	13	7.4
Total	175	100.0

(Source: SLICM)

Table 4.9 Balance in the Leakage Account unrecovered (1986)

No. of societies	140.0
Millions of leakage	103.2
Average leakage per society - Rs. millions	0.74

(Source: SLICM)

Table 4.10 Stock Days of MPCSSs - 1986

<i>Stock Days</i>	<i>No. of MPCSSs</i>	<i>%</i>
10 and less	21	12.1
11-20	96	55.2
21-30	47	27.0
31-40	6	3.4
Greater than 40	4	2.3
Total	174	100.0

(Source: SLICM)

Stability of an enterprise can be determined by the following two measures;

- (a) liquidity
- (b) gearing (leverage)

Even though other financial ratios (such as return on capital employed, etc.) may not be very appropriate to measure performance of cooperative enterprises, the above two measures are valid because they indicate the prospects for continuity of any enterprise.

Liquidity can be measured from the study of the trend of the current ratio and the trend of the working capital. These figures for all the MPCSSs together is seen from Table 4.11.

**Table 4.11 Current Ratio and Working capital of MPCSSs
(from 1972-1985)**

<i>Year</i>	<i>Current Ratio</i>	<i>Working capital (in Rs.millions)</i>
1972	-	352
1973		391
1974	-	539
1975	-	638
1976	-	624
1977	-	-
1978	2.9	806
1979	2.7	933
1980	2.5	1,097
1981	2.1	994
1982	2.1	1,155
1983	2.0	1,182
1984	1.8	1,071
1985	1.5	864

(Source SLICM)

The absolute figure of current ratio is not a good measure because many balance sheets of MPCSSs have figures that are of no value, such as assets which can never be realised and liabilities which need never be paid. Therefore, only the trend is significant. The table 4.11 shows a clear deteriorating trend of working capital upto 1985. However, it is interesting to see the variation of current ratio in MPCSSs. This can be seen from Table 4.12.

**Table 4.12 - Current Ratio of MPCSSs
(Ex. Rural Bank Section-1986)**

<i>Current Ratio</i>	<i>No. of MPCSSs</i>	<i>%</i>
0.5 and below	5	4.6
06.-1.0	-	-
1.1-1.5	12	11.1
1.6-2.0	11	10.2
2.1-2.5	12	11.1
Above 2.5	68	63.0
Total	108	100.0

(Source: SLICM)

Gearing means the ratio of equity to interest bearing capital. If equity is low, it is advantageous if profits are very high. But usually the servicing of a huge loan capital causes problems. In the case of MPCSSs the consolidated balance sheet for 1987 shows a figure of 0.19 which is very highly geared and indicates severe under-capitalisation of MPCSSs.

The problem caused by such under-capitalisation is further confirmed by analyzing the financial expenses (interest payments) as a percentage of sales (Table 4.13). Almost half the MPCSSs have interest payments above 0.5%. With a GP% of 3.0%-4.0%, such interest payments can be considered high. It must also be noted that overdraft and other interest charges are at concessionary terms to cooperatives.

**Table 4.13 - Financial Expenses in the Consumer Section
as a % of sales -1986**

<i>Financial Expenses %</i>	<i>No. of MPCs</i>	<i>%</i>
0.5 and less	104	59.4
0.6-1.0	52	29.7
1.1-1.5	10	5.7
1.6-2.0	5	2.9
2.1-3.0	3	1.7
Greater than 3	1	0.6
Total	175	100.0

(Source: SLICM)

Asset utilisation of MPCs is also less than desired. An example is the utilisation of vehicles. With high capital costs and high idle time costs, it is imperative that vehicles are utilised at the optimum level. If not, it is better to sell off vehicles and reduce the overdraft and hire vehicles whenever needed. Table 4.14 indicates an unsatisfactory utilisation of vehicles. This is an argument for an apex society by which vehicles use could be more rationalised.

**Table 4.14 No. of average running days per month
per vehicle-1986.**

<i>Running days</i>	<i>No. of MPCs</i>	<i>%</i>
10 and less	16	9
11-15	39	22
16-20	76	44
21-25	37	21
30 and 31	7	4
Total	175	100

05. Viability of MPCSS

5.01 Concept of viability

The study of viability has not been given adequate consideration in the past. All previous studies and policy recommendations have not gone into this aspect in depth. As a result, concepts such as 'break-even' and 'debt repayment capacity' do not appear to have been considered. Even the People's Bank in many cases appear to have granted overdraft facilities based on a standard value of 'overdraft amount per rice ration book' and not on an MPCS's ability to generate sufficient surplus to service such overdrafts.

Figure 5.1 depicts a break-even chart which conceptually presents how the viability of an MPCS should be analysed. This chart is different to the conventional chart but is the most appropriate to study the viability of an MPCS. The fixed costs line represents all fixed costs of the MPCS (salaries, finance costs, administration costs, etc.) less regular profits from other commercial ventures. The contribution line represents the gross profit. The gradient of this line varies according to the GP%. Where the contribution line (GP line) cuts the fixed costs line is the break-even point. If this point lies outside the sales potential of the MPCS, it is inherently unviable. In such cases, the fixed costs need to be brought down or the GP% increased in order to break-even within the feasible area.

Figure 5.1 depicts an example where the break-even points can be moved to feasible positions by the reduction of fixed costs. The major portion of the fixed costs is salaries and wages, and a rationalisation of manning levels can reduce existing fixed costs significantly.

The problem of viability can be seen from Table 5.1 which shows Fixed costs as a percentage of sales. The fixed costs considered here are the actual fixed costs and not after reduction on account of regular income from other sources. More than half the MPCSS in the sample have a fixed cost exceeding 3% of sales. With a GP% of only 3.0%-40.%, it is far too high. This indicates that in many cases, trading alone will not bring in the desired surpluses. Other income sources are a necessity.

Table 5.1 Fixed costs of MPCSSs as a % of sales 1986

% Fixed costs	No. of MPCSSs	%
02 and less	20	11.4
2.1-3	51	29.2
3.1-4	50	28.6
4.1-5	31	17.7
Greater than 5	23	13.1
Total	175	100.0

(Source : SLICM)

It is also necessary to stretch the market with wholesale trading and fuel sales. Although wholesale trading is considered inappropriate for co-operatives. Table 5.2 shows how dependant they are on wholesale trade. It has been argued that fuel sales should not be undertaken by MPCSSs because it is not required by members. Table 5.3 shows fuel sales of MPCSSs. If not for wholesale trade and fuel sales the feasible area for viability would have been even smaller.

Table 5.2 - Wholesales of MPCSSs as a % of Total Sales 1986

% of Wholesale	No. of MPCSSs	%
Less than 20	22	12.3
21-40	66	36.9
41-60	68	38.0
61-80	19	10.6
Greater than 80	4	2.2
Total	179	100.0

(Source: SLICM)

Figure 5.1 Break Even Analysis
 (Showing feasible region and B/E points)

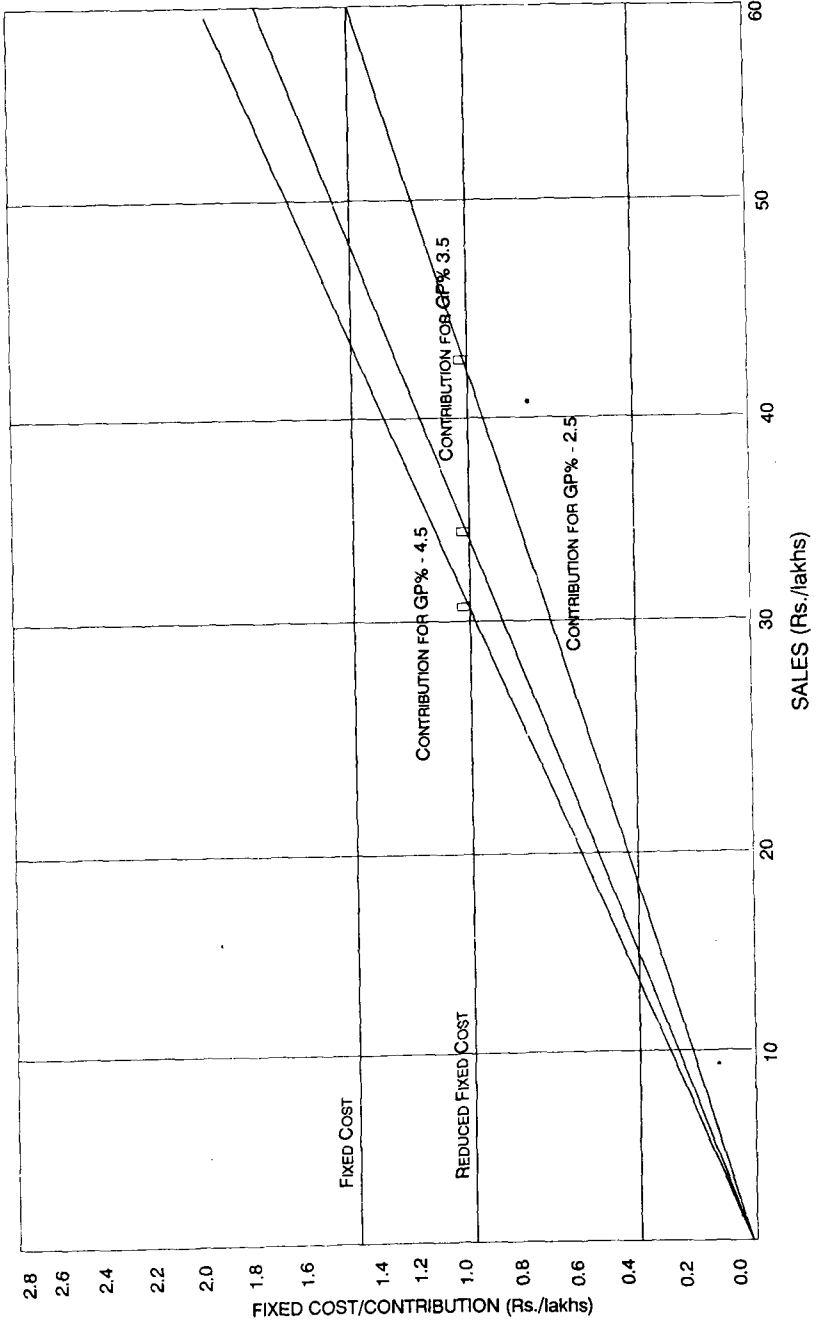


Table 5.3 - Fuel Sales of MPCSSs as a % of Total Sales - 1986

% of Fuel Sales	No. of MPCSSs	%
No. of Fuel sales	36	20.2
Less than 20	82	46.1
21-40	52	29.2
41-60	7	3.9
61-80	1	0.6
Total	178	100.0

(Source: SLICM)

5.2 Study of Viability

Viability of an MPCSS cannot be determined with a high degree of certainty because there are many factors that influence performance. Changes in Boards, president, general manager and other key executives, droughts, prices of agricultural produce, etc. can influence the management performance and sales of an MPCSS. Therefore, probabilistic estimates of viability are more appropriate.

SLICM has formulated five degrees of viability for an MPCSS as follows:

- i. 'Very likely to be viable' - If the projected trading and other income is sufficient to meet all costs and 75% of balance is sufficient to pay all debts in 3 years.
- ii. 'Likely to be viable' - same as above but needs 5 years to repay debts.
- iii. 'Somewhat likely to be viable'.
- iv. 'Not likely to be viable' - same as above but needs more than 10 years to repay debts.
- v. 'Probably unviable' - If the projected trading and other income is insufficient to meet even the fixed costs.

The projected trading and other income is considered at three probable levels:

- (a) Pessimistic
- (b) Most likely
- (c) Optimistic

The trading profits are calculated using the following gross profit percentages which have been estimated using empirical data:

- (a) Retail sales - 5.0%
- (b) Fuel Sales - 1.5%
- (c) Wholesale sales - 2.5%

Table 5.4 and 5.5 show the results of a study of 50 MPCSSs undertaken by SLICM. The two tables show the results before salary increase and after salary increase (In 1968 a committee appointed by the Minister for Cooperatives recommended increased salary scales for cooperative employees).

The viability of the MPCSSs selected for the sample is seen from Table 5.4 which show that even without the salary increase and at the most likely level 10 MPCSSs (20%) are probably unviable. The sensitivity of salaries and wages can be seen from Table 5.5 where the earlier considered figure increases to 27 (54%) when the new salary scales are implemented. This is a very serious situation and once again shows the unplanned short-term measures implemented without considering such measures as a component of a well planned corporate strategy.

**Table 5.4 - Scale of Viability of a Sample of 50 MPCSSs
(before salary increase)**

Forecast levels	Very likely		Likely		Somewhat likely		Not likely		Inherently unviable	
	No.	%	No.	%	No.	%	No.	%	No.	%
Pessimistic	14	28	4	8	4	8	7	14	21	42
Most likely	22	44	5	10	5	10	8	16	10	20
Optimistic	32	64	4	8	5	10	7	14	2	4

Source: SLICM)

Table 5.5 - Scale of viability of a sample of 50 MPCs (after salary increase)

Forecast levels	Very likely		Likely		Somewhat likely		Not likely		Inherently unviable	
	No.	%	No.	%	No.	%	No.	%	No.	%
Pessimistic	9	18	2	4	2	4	2	4	35	70
Most likely	15	30	2	4	2	4	4	8	27	54
Optimistic	19	38	2	3	6	7	14	19	19	38

(Source : SLICM)

6. Government Influences on Performance

6.01 Government policies on trade

The government is committed to a liberalised economy and therefore, restrictions on private trade are very few. Government monopoly exists in certain commodities like flour, and petroleum products. In the case of flour, MPCs have an advantage in that the Food Department, which controls the issue of flour produced by the prima factory, issues flour mainly through cooperatives.

Cooperatives have the potential of making use of liberalised policies to import food or other items.

6.02 Government support

Although monopolies enjoyed by MPCs were removed in 1977, there are still many areas of government support such as:

- i. Reduced income-tax,
- ii. Reimbursement of turnover tax on sales of rice, flour and sugar,
- iii. The Cooperative Development Fund to rehabilitate loss making MPCs,
- iv. Development Fund of the People's Bank for education and training,

- v. Management expertise guidance and audit at negligible costs,
- vi. Lower interest rates for loans and overdrafts,
- vii. Local level political support.

7. Forecast for the future

At the present level of performance, the future for consumer cooperatives is very bleak. If nothing is done to arrest the slide, several MPCSSs will become insolvent soon. Based on the study of viability, the rate of collapse of MPCSSs can be predicted as given in Table 7.1.

Table 7.1 - Prediction of the No. of MPCSSs becoming insolvent

	1989	1990	1991	1992	1993
No. of MPCSSs becoming insolvent	5	7	5	6	4

The number of loss making MPCSSs will continue to increase. A prediction of this is shown in table 7.2.

Table 7.2 - Prediction of the number of loss making MPCSSs

	1989	1990	1991	1992	1993
No. of loss making MPCSSs	80	95	115	120	125

8. Strategic Alternatives

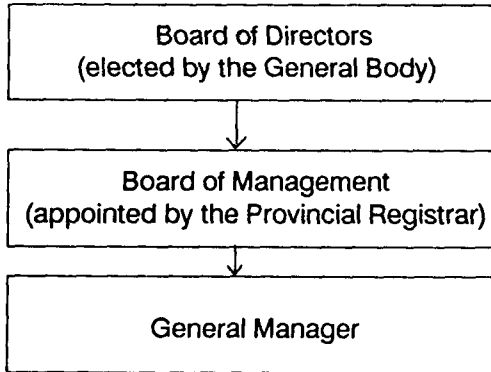
8.01 A suggested approach

To remedy the current adverse situation of consumer cooperatives, the following steps should be taken:

- i. Identify and specify a clear mission for MPCSSs,
- ii. Identify clear and quantified (wherever possible) goals.
(These two steps are essential because there is too much confusion regarding the mission and goals of MPCSSs. Some presidents and general managers even justify losses by claiming that it is in conformity with their mission, and profit making was never a goal!!).
- iii. Carry out a SWOT analysis (Strengths, Weaknesses, Opportunities and Threats).
- iv. Decide on a corporate strategy based on the above steps.
- v. Prepare action plans.

It is the responsibility of the workshop to determine the corporate strategy and prepare detailed action plans. However, in studying some of the strengths and weaknesses, opportunities and threats, the suggestions given below could be considered.

- (i) To overcome problems and inefficiencies of democratic control an intermediate board of management could be formed to remove the undesirable influences of the board of directors:



The board of management should be appointed by the provincial registrar and should consist of professionally competent people. This system operates in some western cooperatives.

- (ii) To overcome problems of lack of economies of scale, to strengthen bargaining power and to be able to import and export, a national level apex could be formed.
- (iii) To overcome the problem of an inadequate market in some areas, the possibility of new markets and new products based on a growth vector model could be considered (as shown in Figure 8.1)

Fig.8.1. Growth vector model

Existing Market segment		Packeting of goods	Credit Sales Promotional Schemes
Expanded Market segment	Improved Assortment	Better Assortment Packeting	Home Deliveries, Lotteries
New Market Segment	Packed Goods	Improved cleanliness	Self-Service

Present retailing method Improved retailing method New retailing method

Fig.8.1 shows an example of a growth vector analysis with the objective of expanding the market.

Very good results have been obtained by MPCSS which commenced self-service shops and modernized their retail outlets in urban areas. The traditional concept of a 'cooperative store' should give way to something that provides most of the requirements of consumers.

In areas where no progress can be envisaged along the growth vectors other profitable commercial activities could be commenced.

- (iv) Some meaningful steps are required to infuse more permanent interest free capital. If this is not possible through members, government should be persuaded to provide this. If necessary, laws could be amended to allow government shareholding as in India.
- (v) In the case of rice and flour bought from the Food Commissioner, an increase in margins should be obtained. SLICM has already prepared a report justifying increases by about 40% in the case of wholesale trade and about 15% in the case of retail trade. This should be implemented quickly as it will significantly improve the profitability.
- (vi) Preparation and sale of generic products should be considered. This practice is adopted by many cooperatives throughout the world (e.g. blue and white products of scandinavian countries) where the plain and cheap packaging passes on the savings to the consumer. This can only be implemented with an apex consumer cooperative.
- (vii) The management problem can be overcome with existing system of management information with 'signals' and 'early warning' devices.

9. Conclusion

If the MPCSSs continue in the present trend they are likely to collapse one by one unless artificially propped. The involvement of the Janasaviya programme will definitely improve the performance through higher sales envisaged under this scheme. However the future looks bleak.

MPCSSs can be revived if a well formulated corporate strategy is implemented to take account of environmental opportunities and capitalising on existing strengths. Only such a comprehensive and long term strategy will strengthen and develop the consumer cooperative movement. Years of patchwork has only delayed the impending collapse.

Annexe I

STATISTICS OF MPCSS AS AT 31 MARCH 1987

No. of MPCSSs in Various ACCD Divisions (Ranked - ACCD Division with the highest No. of MPCSSs first)

<i>ACCD Division</i>	<i>MPCSSs</i>
1. Jaffna	22
2. Kandy	21
3. Anuradhapura	20
4. Galle	18
5. Gampaha	17
6. Baticaloa	13
7. Ratnapura	13
8. Badulla	12
9. Colombo	12
10. Kalutara	10
11. Matale	10
12. Kegalle	10
13. Karunegala	9
14. Nuwera Eliya	9
15. Polonnaruwa	9
16. Trincomalee	9
17. Kalmunai	9
18. Chilaw	8
19. Kuliyaipitiya	8
20. Matara	8
21. Hambantota	7
22. Amparai	6
23. Monaragala	6
24. Mannar	6
25. Mulativu	4
26. Vavuniya	4
27. Kilinochchi	4
Total	284

Annexe 2

STATISTICS OF MPCSS AS AT 31 MARCH 1987

No. of Members of MPCSS in various ACCD Divisions

(Ranked - ACCD Division with the highest No. of total members first)

ACCD Divisions	Members		Total
	Males	Females	
1. Gampaha	177,580	73,990	251,570
2. Colombo	131,858	78,568	210,426
3. Karunegala	125,297	52,445	177,742
4. Jaffna	134,067	43,332	177,399
5. Matara	101,005	63,456	164,461
6. Ratnapura	98,570	31,580	130,150
7. Galle	80,999	43,100	124,099
8. Badull	81,967	34,668	116,635
9. Anuradhapura	79,284	25,448	104,732
10. Kalutara	60,995	33,679	94,674
11. Chilaw	66,058	11,760	77,818
12. Kandy	53,344	20,917	74,261
13. Kuliayapitiya	53,489	16,222	69,711
14. Hambantota	39,962	17,209	57,171
15. Kegalle	11,532	45,317	56,849
16. Trincomale	38,868	10,715	49,583
17. Baticoloa	39,924	8,770	48,694
18. Kalmunai	28,158	10,472	38,630
19. Amparai	23,462	8,513	31,975
20. Matale	24,980	3,783	28,763
21. Polonnaruwa	19,378	7,750	27,128
22. Monarangala	23,490	3,545	27,035
23. Vavuniya	19,534	6,260	25,794
24. Kilinochchi	17,390	5,980	23,370
25. Nuwara Eliya	13,489	9,110	22,599
26. Mulattivu	14,013	4,123	18,136
27. Mannar	9,075	3,825	12,900
Total	1,567,768	674,537	2,242,305

Role of Consumer Cooperatives in a Developing Economy

Mr.W.U.Herath

01. Introduction

1.01 Sri Lanka has a long history of Consumer Cooperative Movement since the introduction of Cooperative Stores societies during the second world war. Although the structure of consumer cooperatives has been subject to occasional changes, the services rendered by the consumer movement to low-income groups, which consist of atleast 50% of the population, remain unchanged. With the introduction of multi-purpose cooperative society concept in 1957, the single purpose cooperatives working in the consumer field have drastically declined. However, it appears that the present day multi-purposẽ cooperative societies, by and iarge, have a consumer bias. The concept of multi-purpose cooperative societies to be used for providing consumer services is common to some countries in the Region, such as Bangladesh and Japan. The concept of KUD prevalent in Indonesia too has the same structure and same arrangements.

1.02 It appears that there is a growing demand for a systematic organization at the secondary and tertiary levels in order to absorb the activities such as warehousing, wholesaling, processing and import for the multi-purpose cooperative societies. The Sri Lanka Cooperative Marketing Federation has its own constraints to meet the demands of the multi-purpose societies. In addition, one has to take into account the emergence of super markets by several local and multi-national companies in large cities. This has not only affected the consumer cooperative societies, but also generated debates at the policy making levels to safeguard the rights of consumers and also consumer protection generally. This phenomenon is common not only to Sri Lanka but also other countries which are oriented towards open economy. Therefore, it has become important to review the present arrangements in regard to

the present structure of the consumer cooperative movement in Sri Lanka and also the present level of development it has.

1.03 The ICA Sub-Committee on Consumer Cooperation for Asia has reviewed the general situation in the region in its meeting held in May 1988 in Thailand and decided to discuss the subject matter at a regional workshop during December 1988 in Kuala Lumpur, followed by several national workshops in other countries, which would undertake review of current position and provide a forum for deciding on the future strategies and plans.

1.04 It is also necessary to take into account the current developments in the market in order to take an over-view of global situation which affect the consumer cooperative movements in developing countries. The consumer cooperative movement itself have to deal with the current changes in the market economy as well as the society in order to decide on future strategies. It has to be supported by other strategies to be able to secure a better share of the market. This is vital just because the consumer cooperatives are no longer under powerful protection by the state.

1.05 When we are trying to deal with these aspects, there are common factors faced by the consumer in a developing situation. The changes in consumer behaviour as well as the cooperative practices have to be considered. Therefore, this brief presentation would confine itself to salient features of the modern market economy and the role which has to be played by consumer cooperatives to generate discussions among the workshop members in evolving an appropriate strategy for the promotion and development of sound and efficient consumer cooperative movement in Sri Lanka.

02. Factors affecting consumer cooperatives in a developing economy

2.01 A handbook published by the United Nations in 1987 provides a comparative analysis on the development stage of several countries in the Asian Region as well as comparative data on Europe and America:

Some Basic Indicators of Development 1985

Region, Economic Grouping, Country or Area	Population		Area KM ²	Density Inhabitants per KM ²	Gross Domestic Product	
	Total 1985	Annual average Growth Rate			Total	Per Capita
	Thousands	In percentage	Dollars	Dollars		
<i>Developed Market Countries</i>						
Europe	352,629	0.4	3594949	98	2893863	8207
America	263,446	1.0	19348742	14	4307898	16352
Asia	124,994	1.0	393080	318	1348064	10785
Israel	4,252	2.4	20770	205	22861	5377
Japan	120,742	1.0	372310	324	1325203	10975
Oceania	19,016	1.4	795526	2	177184	9318
Australia	15,690	1.5	768684	2	155047	9877
New Zealand	3,318	1.1	268680	12	22137	6672

Continued on page 76

Region, Economic Grouping, Country or Area	Population		Area	Density	Gross Domestic Product	
	Total	Annual Average			Total	Per Capita
	Thousands	In percentage	KM ²	Inhabitants per KM ²	Dollars	Dollars
Asia	1,570,323	2.3	15665423	101	1115028	710
Indonesia	166,440	2.2	1904570	87	85083	511
Malaysia	15,557	2.4	329750	47	31231	2001
Philippines	54,498	2.5	300000	182	32757	601
Singapore	2,559	1.4	580	4412	17475	6830
Thailand	51,411	2.3	514000	100	38343	746
Bangladesh	98,657	2.5	144000	685	16069	163
India	758,930	2.1	3257587	231	196904	259
Rep. of Korea	41,258	1.7	98480	419	86792	2104
Sri Lanka	16,205	1.7	65610	247	5978	369
Afghanistan	18,140	2.5	647500	28	-	-
Nepal	16,625	2.5	140800	118	2347	141
Pakistan	100,380	2.9	803940	125	30997	309

Developing Countries

Source: Handbook of International Trade and Development Statistics-United Nations - New York - 1987

2.02 When we analyse the data, it becomes obvious that the entire development process in the World in 1980s has been subject to setbacks. This has resulted in social and economic stagnation, regression and also damage to development process.

2.03 The survey also reveals that the annual average growth of GDP for developing countries has fallen from 5% to 1% during the decade, which resulted in the reduction of availability of resources to the inhabitants of developing countries and also contraction of living standards. In the Asian region, except Japan, all countries fall within the category of developing countries. This has also resulted in widening the gap of GDP per capita between developing and developed countries. In 1983 GDP per capita of developed countries was US\$ 10,110 whereas in the Asian developing countries, it was US\$ 720. The consequences have been reflected in the unemployment, reduction of earnings and also decline in welfare, nutrition, health and education.

2.04 The regression in the global situation has necessitated the developed countries to adopt so many measures of keeping the balance of growth rate they wanted to keep. They adopted several measures such as:

- i. Using modern technology to reduce the cost of production as well as raw-material content of outputs.
- ii. Cut down on the import of raw materials and basic commodities from developing countries.
- iii. Protectionism towards agro-based commodities produced within the countries.
- iv. Aggressive sales campaign for mass-produced consumer commodities for the markets of developing countries.
- v. Cut backs on industrial production in order to create artificial demands.
- vi. Prohibitive interest rates imposed on international money lending to developing countries.

2.05 Out of these factors, the protectionism shown towards agro-commodities produced in the developed countries has mostly aggravated the plight of major population of developing countries, who consist of farmers and small entrepreneurs. Certain developed countries also compelled not only developing countries but also some developed countries in the region to come to losing trade agreements.

2.06 The modern technology has influenced the society to the extent of introducing the concept of "throw-away" society. The basic interest was to cut down the cost of production and also to integrate the fast changing technical developments into the main industries. This has created obsolescence in the current society. This has also resulted in frequent changes in the popularity of products and brands and also shortened the life cycle of the products. The introduction of plastic and fibre material has accelerated this process. Instant food recipes and take-away packs have become a part of this culture.

2.07 These changes have also created the concept of market economy. With the technological change, the economy becomes marketized. Companies who promoted the contradiction between the producer and the consumer ultimately lead the economy into a 'profit-based economy'. The traditional societies were disintegrated to become individualized market societies. Commercial values became central. Economic growth became primary goals of the state. This resulted in several uprisings not only in the open economies, but also in centralized economies towards more open systems.

2.08 In a market economy situation, the companies either working at the national level or multi-national level would become competitive and transcend in their approaches to business. In order to achieve more profits, the selling techniques should become more aggressive and the consumer has to be manipulated. Manufacturers in developed economies have used communication strategies to advertise and market their synthetic products over tropical natural commodities. Packeted instant baby milk powder became more popular than mother's milk or cow's milk. The manufacturers and companies dealing with export of consumer commodities started planning obsolescence in order to achieve replacement sales. More sophisticated developments in the communication technology such as television, satellite communication and computer based information technology has been used for this purpose. The advertisements became more attractive to the psychology of an average consumer.

2.09 In a situation where a developing economy has semi-literate consumers, they could easily be persuaded to advertisements and other types of communications to become dependent

on these commodities. This would affect the psychology of consumer and he becomes confused of his actual needs. When the economies in the developing countries become more open gradually, the gap between the rich and poor will also get widened. Multi-national and trans-national companies thrive in their business both by attracting them to become dependent on products they promote.

2.10 Although such artificial demand is being created in developing countries for hi-tech commodities and also inspite of low-cost of production, the prices keep escalating due to foreign exchange rates and interest on consumption and capital credit facilities provided by developed countries and international monetary agencies as aid to developing countries.

2.11 In a commercially oriented society, the values are gradually changed. This change is also influenced by the behavioral techniques used by the companies. Some companies have already started using approaches such as Total Customer Responsiveness (TCR) which tries to bridge the gap between the supplier, distributor and the customer. By using executives who are competent in using communication techniques and also psycho-therapeutic process, the companies try to realize stable and formalized customer reference groups in order to plan their products to suit the tastes of the consumer. This would inevitably influence the consumer behaviour and also result in wasteful life styles integrated into their lives. Eventually this concept would be introduced into the developing countries by adapting the approaches to suit the local clientele. They also would succeed in creating new markets with new customer groups. Multi-national and trans-national companies would become internationalists in pure sense by merging with cultures of new societies. Many have already started working with live-stock farmers. Their factories have reached the customer by bridging the gap between the designer and the consumer.

2.12 As described above, the consumer in a developing economy too would become influenced by the technological and social changes in the modern society. The traditional family and social systems have already started getting disintegrated. With the contradictions created by the confusion in the modern society, individual has become isolated from socially accepted value systems.

Consequently, the struggle in search of identity has been introduced by individuals and groups who came to the front with communal, racial or political ideologies. The manufacturing companies too have got entangled in this struggle by making use of such situation to their ultimate benefit of profit making. They also started getting the consumer to participate in the working of the entire sales process. As an example, the self service super markets introduced were not only meant to be for cutting down the costs of sales, but also to involve the consumer in the process which was meant for the manufacturers or the sales companies. Some companies went ahead and introduced "do it yourself" packages in not only food commodities but also industrial products in order to bridge the gap between the producer and the consumer which resulted in maximization of profits for them. The average consumer too is satisfied that such an arrangement, which satisfies his ego.

03. Matching Cooperative ideologies with the needs of Consumer in developing economies

3.01 In order to create a counter balance to this situation the concept of consumerism and consumer protection came into existence. This concept is not new. The Rochdale pioneers themselves started looking at the entire sales operations from the point of view of the consumer and tried to organize themselves to become more enlightened about their needs and also the necessity of managing their budgets for the benefit of the family as well as the community. After some time, many countries introduced legislation to prevent manufacturing companies and marketing companies exploiting the consumer in order to accrue more profits. Even in developing countries, the consumer protection laws are in the process of propagation by the state itself. Consumer protection agencies are being formed voluntarily or being sponsored by the state itself.

3.02 The International Cooperative Alliance(ICA) declared in 1969 the basic rights of consumers as follows:

- i. A reasonable standard of nutrition, clothing and housing,
- ii. Adequate standard of safety and a healthy environment free from pollution,

- iii. Access to unadulterated merchandise at fair prices with reasonable variety and choice,
- iv. Access to relevant information on goods and services and to education on consumer topics,
- v. Influence in economic life and democratic participation in its control.

3.03 The ICA Consumer Committee has also declared a Consumer Policy Programme, which places a very important bearing on economic and social development and welfare and quality of life to peoples of all countries.

3.04 The very first cooperative society which began in 1844 in Rochdale was the culmination of the struggle between the exploiting companies and the exploited consumers. The pioneers thought that the existing market relationship were un-equal and un-just. Individual consumers do not have the power of bargaining. Therefore, the pioneers organized the consumers who were ill-paid workers, into a body who pioneered the modern consumer cooperative movement. They also propagated economic democracy in cooperative who conducted business with a sense of humanism. The very principles they advocated have reflected in the 1966 ICA Declaration of Cooperative Principles representing the basic ideas they were trying to propagate. The Cooperative principles thus propagated are:

- a. Membership of a cooperative society should be voluntary and available without artificial restriction or any social, political, racial or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities of membership.
- b. Cooperative societies are democratic organizations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. In other than primary societies the administration should be conducted on a democratic basis in a suitable form.

- c. Share capital should only receive a strictly limited rate of interest, if any.
- d. The economic results arising out of the operations of a society belong to the members of that society and should be distributed in such a manner as would avoid one member gaining at the expense of others.

This may be done by decision of the members as follows:

- By provision for development of the business of the Co-operative;
 - By provision of common services; or
 - By distribution among the members in proportion to their transactions with the Society.
- e. All cooperative societies should make provision for the education of their members, officers, and employees and of the general public, in the principles and techniques of cooperation, both economic and democratic.
- f. All cooperative organizations, in order to best serve the interests of their members and their communities should actively cooperate in every practical way with other cooperatives at local, national and international levels.

3.05 Consumer Cooperative movement has been changing since the introduction in 1844. In some countries, the consumer cooperative movements have undergone severe crisis and some have been closed. In some countries, consumer cooperatives have been growing and changing its role to counter balance the ill-effects of market economy. Even in the developing countries in the Asian Region, the consumer cooperatives have been subjected to such turbulent experiences. However it has become necessary to identify the role of consumer cooperatives in a developing situation. The importance and necessity of having consumers organizations in a strong economic footing has been felt at present than ever because of the dangers faced by the human society due to the threat of their very existence caused by hazardous technological developments and also toxic pollution of environment. It has also become necessary for the cooperatives to function to educate the consumers in order to achieve a balanced life style based on their income.

3.06 The ICA Consumer committee declaration emphasizes the need of encouraging the formation of new cooperatives and strengthening the existing ones in order to improve living standards of consumers and provide necessary goods and services for the communities. They also proposed following action for developing countries, which could be matched to the needs arising out of the factors described above:

- i. Cooperatives should promote consumer protection in matters such as nutritious food, hazardous products and instructions for use.
- ii. Cooperatives should establish and apply rules to ensure health and safety of consumers.
- iii. Cooperatives should take initiatives to reject import of products which, by law in the exporting country, has been declared as hazardous and prohibited for sale in that country.
- iv. Cooperatives should be responsible for providing to the members and other consumers various types of information about the range of products, difference between various brands, unique pricing, background information on market trend and prices, information to help household budgeting, information on kind of products required to meet certain specific needs, information on quality, quantity, price and use in clear terms.
- v. The establishment of a Code for truth in advertising.
- vi. Promotion of fair trading through adequate information and choice, including information on contents and ingredients on food labelling.
- vii. Cooperative should ensure adequate supply of basic essentials.
- viii. Cooperatives should advise consumers on wise spending.
- ix. Cooperatives should not try to tempt the consumers to over consumption by promoting sales on credit.
- x. Collaboration with cooperatives in industrialized countries so as to benefit from their experiences.
- xi. Consumer representatives on all bodies concerned with consumer questions.

xii. Measures to ensure that individual members can make their will known through cooperatives.

3.07 The ICA Congress in 1988 discussed the ideology and values of cooperatives in terms of present developments in the society. The discussion undertaken during the consumer meetings of the ICA have emphasized the importance of mobilizing the cooperatives to observe the values propagated such as:

- self help values,
- democratic values,
- educational values,
- voluntary effort values,
- values of universality and co-operatization, and
- values of purpose.

04. Strategy for the development of consumer cooperatives in a developing economy

4.01 Countries in the Asian Region have shown varying degrees of development in consumer cooperatives from non-existence to market oriented modern super market systems. The strategies of consumer cooperative development may differ from country to country depending on the needs. However, the cooperative values and the basic principles are universal to all cooperatives irrespective of their developmental stage. Therefore, it is necessary to adhere to cooperative form of management and development approaches in all aspects of consumer cooperation.

4.02 Considering the vivid development levels of cooperatives in the Region, some consumer cooperative movements have been developed into purely business-oriented enterprises. They have their own corporate and business strategies developed by professionals. In this situation, the pricing and margins are somewhat similar to the private enterprises, which negates the essence of cooperation. The responsibilities as quoted by the ICA Consumer Committee are not much observed. Sometimes hazardous and unsafe products come to the cooperative shops.

4.03 When the basic principles of cooperation and the responsibility towards the members and the consumers are not observed,

the existing consumer cooperatives would lose the character of a cooperative organization as perceived and propagated by the pioneers. Therefore, the existing cooperatives would have to observe a critical awareness on the market forces influencing the consumer behavior and actively involve themselves to promote not only a fair deal to the consumers but also to create social concern, ecological awareness and also the solidarity among cooperatives and its members. The policies and the educational training activities of the cooperatives should reflect the consumers' rights and the cooperatives' responsibility to safeguard the consumer interests in the process of their business activities of wholesaling and retailing.

4.04 The management culture prevailing in developed and large consumer cooperative organizations should not isolate the members in decision making. The members being the owners and beneficiaries of cooperative organizations, should be developed into a group who could take far reaching business decisions as well as decisions on the social activities. The management of consumer cooperatives should promote the acceptance of its business policies and strategies by the membership at large.

4.05 The existing consumer cooperatives would have to undertake bridging the producer with the consumer. It is some thing similar to what Alvin Toffler called as "Pro-sumerism" in his book titled 'Third Wave'. This would counter balance the new trend of private companies trying to merge the two operations into one individual. This would also eliminate the middlemen who are involved in coordinating the producers with consumers.

4.06 It is also necessary to deal with situations where the consumer cooperative organizations do not exist in certain communities. Mobilizing consumers into consumer cooperative organization cannot be the same as the pioneers have undertaken some time ago. Market forces and the social behaviour of people have changed to different dimensions over the last few decades. The economic and social requirements of the people too have changed. Therefore, the promoter of such an idea should observe the present developments in the market as well as the society.

4.07 The objectives of a consumer cooperative organization could be stated as "to provide many types of goods and services

for the welfare of the members of the society as well as community at large”.

4.08 Such a society could have the following functions:

- i. Mobilize consumers into strong participative consumer enterprises,
- ii. Strengthen the management of consumer cooperative organizations which should result in surplus and viability of operations,
- iii. Integration of consumers with producers to achieve mutually helped economic activities and integration of members into a cohesive group.

4.09 The activities to be undertaken by such a consumer cooperative organization could cover development of quality goods and services at low prices alongwith good customer services and cautious investment in product development too. Unlike in a traditional consumer cooperative society, where the activities are restricted to the procurement and distribution of consumer goods to the members, the present day consumer cooperatives would have to undertake complex and wide range of activities in order to influence the consumer market in a market based economy. Therefore, in order to carry out the functions stated above, certain specific business strategies would have to be utilized as follows:

- i. Cooperative acquisition of goods and services via joint purchasing, own production and distribution which influences market supply.
- ii. Cooperative information distribution and education about goods and services among members and consumers which influences market demand.
- iii. Cooperative consciousness-raising of different kind, own press, committee reports, participation in investigation, government authority, supervisory board, etc.

4.10 These strategies have been identified and quoted by Mr.Sven Aake Book of Sweden in a paper presented to the ICA Congress in 1988.

05. Role of ICA in the development of Consumer Cooperative Movements

5.01 The ICA has developed an overall Cooperative Development Policy in keeping with the role it has to play in their member organizations. The development policy is observed in all sub-sectors of cooperative development including consumer cooperatives. The basic development objectives of the ICA are:

- i. Establishment and growth of independent, democratic and viable cooperative organizations capable of serving their members efficiently and contribute to economic and social equity.
- ii. Strengthening collaboration between cooperative organizations of various types and in different countries, thereby promoting international solidarity which is the foundation of constructive peace.
- iii. Influence public opinion, international authorities and international organizations to stimulate growth of a favourable atmosphere for cooperation promoting enactment of appropriate cooperative legislation enlisting the support of governments and international organizations for the development of cooperative movements.

5.02 The role of the ICA in the development of cooperative organizations is to function as a coordinator and catalyst for cooperative development.

5.03 In order to perform this role, the ICA would undertake the following activities:

- a) Assist member organizations in developing countries to identify their needs and comprehensive development programmes;
- b) Establish an on-going policy dialogue with governments in developing countries;
- c) Resource mobilization:
 - assist in project identification, design, monitoring and evaluation,
 - advise in identifying country and sectoral priorities,

- policy guidance in methodology,
- identify new donors encouraging more movement-to-movement assistance.

d) Increase liaison with UN agencies.

5.04 The ICA has established a Consumer Cooperative Development Project at the Regional Office for Asia to perform the task described above.

5.05 The overall objective of the Consumer Cooperative Development Project is to help member movements in the Region in developing sound and effective consumer cooperatives.

5.06 In keeping with the overall objective, the following specific objectives have been formulated:

- i. To assist member movements in strengthening member participation in their cooperatives and the development of organizational structure of their movements.
- ii. To assist member movements in evolving an appropriate strategy for the promotion and development of effective and sound consumer cooperative movements in their respective countries.
- iii. To assist member movements in developing human resources.
- iv. To provide technical know-how and information on retail management and shop operations, etc.
- v. To create favourable climate for the growth of self reliant and autonomous consumer cooperative movements in developing countries.
- vi. To review trends of consumer cooperative movements in the Region.
- vii. To assist member movements in the Region in preparing their long-term perspective plans.

5.07 The project has prepared a 4-year plan at present covering activities related to these objectives. The ICA Sub-Committee on Consumer Cooperation for Asia guides in the implementation of the plan and initiates changes whenever necessary. The Sub-committee meetings are normally held twice a year to provide a forum for such monitoring.

5.08 The ICA would undertake to help the member movements in developing countries on priority basis, in the lines which have been explained above. It has become a difficult and complex task to promote the idea of cooperation for consumers in the light of monopolies existing in several developing countries. Even in the case of existing consumer cooperative movements in certain countries in the region, they struggle with big market powers to receive a major share in the consumer market. However, through mobilization of their members, leaders and staff members in keeping with their principles and values, they could achieve planned development as against private enterprises. The consumer cooperatives in developed countries could play a major role in this effort through sharing technical know-how and collaborated market activities through joint ventures with cooperatives in developing countries.

5.09 The ICA ROA, during the next few years, would try to help the international cooperative movements to establish sound consumer cooperatives. The visible strength we have in this direction is the positive attitude of developed consumer cooperative movements such as in Japan and Sweden to help other cooperative movements in the Region.

06. Conclusion

6.01 This presentation tried to analyse trends in consumer movements in market economy at universal and regional levels. The presentation has also tried to identify the challenges faced by the consumer cooperatives in developing countries and the tasks they have to undertake. The role of the ICA in developing sound and effective consumer cooperative movements has also been discussed. The nature of developmental activities that would be undertaken by the ICA for the next few years have been highlighted to serve as background for further discussions.

VI

Members of the Workshop

Members of the Workshop

The following is the list of participants at the ICA/NCC Regional Workshop for Evolving Appropriate Strategies for the promotion and development of an effective and sound consumer cooperative movement in Sri Lanka:

1. Mr.M.G.S.Dharmasena
2. Mr.Hema Wilarachchi
3. Mr.S.Velayudam Pillai
4. Mrs.S.Obeysekera
5. Mr.L.G.Soorasena
6. Mr.D.K.Wijewardhane
7. Mr.Weiraratne Kumarage
8. Mr.D.E.Pathirana
9. Mr.D.Pandigama
10. Mrs.Sheila Heeratimulla
11. Mr.Mahipala Herath
12. Mrs.S.Palihakkara
13. Mr.P.G.Abeykeerthi
14. Mr.Jayatissa Samarasinghe
15. Mr.Dharmasena Hapertantre
16. Mr.Siripala Hatarasinghe
17. Mr.S.D.Gunasena
18. Mr.Ananda Kumarasinghe
19. Mr.R.K.Samarasinghe
20. Mr.S.Sivamaharajah

21. Mr.P.H.Abeysekera
22. Mr.S.Mariam Pillai
23. Mr.W.R.R.Seneviratne
24. Mr.D.Kalansooriya
25. Mr.Milton Jayaratne
26. Mr.H.G.S.Jayaratne
27. Mr.Sarath Velihena
28. Mr.S.W.Rajapakre
29. Mr.P.H.Perera
30. Mr.Dissanayake
31. Mr.Shanmuga Sundaram
32. Mr.H.P.Perera

VII

Workshop Programme

Chapter VII

Workshop Programme

26 April 89

- 09.00-09.30 Arrival of participants and Registration
- 09.30-10.30 Chief Guest: Hon.Ravindra Samaraweera, State Minister of Cooperatives.
- Inaugural address by Hon.Ravindra Samaraweera
- Address by Hon.A.M.Yoosuf, Provincial Minister for Food, Cooperation & Industries.
- Address by Mr.W.P.S.Jayawardhane, Commissioner of Cooperative Development & Registrar of Cooperative Societies.
- Address by Mr.W.U.Herath, Advisor, Consumer Cooperative Development, ICA-ROA.
- Vote of thanks by Mr.M.G.S.Silva, General Secretary, National Cooperative Council of Sri Lanka.
- 11.00-12.30 Current Situation of Consumer Cooperatives in Sri Lanka, by Mr.S.G.Wijesingha, General Manager, Ceramics Corporation (former General Manager of Sri Lanka Institute of Cooperative Management.)
- 12.30-13.00 Discussion on the presentation.
- 14.00-17.00 Group discussions.

27 April 89

- 08.30-10.30 Preparation of group reports.
- 11.00-13.00 Presentation of group reports and conclusions.
- 14.00-15.00 Role of Consumer Cooperatives in a Developing Economy by Mr.W.U.Herath, Advisor, Consumer Cooperative Development, ICA ROA.
- 15.00-15.30 Discussion on the presentation.
- 16.00-17.00 Group Discussions.

28 April 89

- 08.30-10.00 Government's Trade Policy by Mr.F.R.Maligaspe, Senior Assistant Secretary, Ministry of Trade.
- 10.00-10.30 Discussions.
- 11.00-13.00 Presentation of group reports and plenary.
- 14.00-15.00 Address by Hon.Lalith Athulathmudale, Minister of Agriculture, Food and Cooperatives.
- 15.00-17.00 Group discussions.

29 April 89

- 08.30-10.30 Presentation of group reports and plenary.
- 11.00-12.00 Preparation and presentation of Conclusions and Recommendations.
- 12.00-13.00 Closing session.

VIII

Workshop Memorandum

Workshop Memorandum

1. Background

The Consumer Cooperative Movement in Sri Lanka has a long history of ups and downs from the inception, during the Second World War. The structure of the consumer cooperatives have been subject to many experiments during the past, which has resulted in the formation of the present multi-purpose cooperative societies. However, the consumer cooperatives had vital importance in the distribution of essential commodities all throughout and carried out the gigantic task of undertaking the implementation of rationing schemes launched by every government

The profitability and the viability of consumer cooperatives have been greatly influenced by the trade policies and the changes in the rationing schemes. The governments were functioning as benefactors of consumer cooperative movement by giving many types of credit facilities and also grants and soft loans in order to up-keep the losing consumer cooperatives. These conditions have made the consumer cooperative movement greatly dependent on the government support.

The consumer cooperatives in Sri Lanka had at no time any apex level consumer cooperative federation. The CWE was created to serve the need to have such a federation and have had many changes during the past. During the recent time, the consumer cooperatives were clamoring for wholesale unions and also some form of autonomous national level organisation.

In this background, it is timely to assess the consumer cooperative movement in order to identify the potential areas they could undertake as profitable business and also to identify ways and means to successfully overcome the problems created in the current situation of consumer cooperation.

2. Objectives

To enable the cooperative leaders and policy makers of consumer cooperatives:

- i. To assess the current situation in regard to consumer cooperative movement in Sri Lanka,
- ii. To identify the problems and issues hindering the development of consumer cooperative movement in Sri Lanka, and
- iii. To identify and suggest an appropriate strategy for the development of a sound and effective consumer cooperative movement in Sri Lanka.

3. Workshop Methodology

- i) Inauguration of the workshop and the presentation on the current situation of consumer cooperative movement in Sri Lanka followed by group discussions.

- ii) Group discussions on the subject and the plenary to identify the problems and issues hindering the development of consumer cooperatives in Sri Lanka.
- iii) Presentation on the government policy on trade and economic development followed by discussions.
- iv) Group discussions on evolving an appropriate strategy for the development of a sound and effective consumer cooperative movement in Sri Lanka.
- v) Plenary on the strategy and the closing of the workshop.

4. Organisers

- i) National Cooperative Council of Sri Lanka,
455 Galle Road
Colombo -3 (Sri Lanka).
- ii) International Cooperative Alliance
Regional Office for Asia
'Bonow House', 43 Friends Colony (East),
New Delhi 110 065, India.